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ANNUAL REPORT 1971

1847 1972

OUR ONE HUNDRED AND TWENTY-FIFTH YEAR

125

Massey-Ferguson Limited

Massey-Ferguson celebrates its 125th anniversary in 1972. It has grown from Daniel Massey's modest implement shop near Newcastle, Ontario, to be among the world's largest companies, selling its products in some 180 countries.

Over the years Massey-Ferguson has won widespread recognition for its products, and certainly the most colourful are the medals once awarded at field trials and exhibitions. Among those shown on the cover are medals from a variety of countries, including the Universal Exposition, Paris 1867 (Emperor Napoleon III); the United States Centennial Commission International Exhibition 1876; the Agricultural and Arts Association of Ontario 1880; the Universal Exposition, Anvers 1885 (Leopold II, King of the Belgians); the Tasmanian International Exhibition, 1891; the General Exposition, Rome 1906 (Carol I).

Although the practice of awarding medals is not as common today, the gold medal shown at the left was presented to the company in December 1971 by the Royal Agricultural Society of England in recognition of the contribution made by the Ferguson System to agriculture.

Le rapport du conseil aux actionnaires en français peut être obtenu sur demande.

Contents

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The Annual Meeting of Shareholders
will be held in the Ballroom,
Royal York Hotel, Toronto
at 12 o'clock noon on March 7, 1972

financial highlights

1971	1970	1969
$1,029.3	$937.9	$969.4
10.3	(21.9)	39.9
9.3	(19.7)	30.2
$ 335.2	$291.3	$330.4
195.3	180.1	155.7
403.7	394.5	431.5
$ 0.51	$ (1.08)	$ 1.66
NIL	1.00	1.00
22.19	21.68	23.72
43,349	47,386	50,429
41,575	45,744	39,694
18,195	18,195	18,195

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United States Centennia
1876; the Agricultural a
the Universal Expositior
Belgians); the Tasmania
General Exposition, Ror

Although the practice c
today, the gold medal s
company in December
England in recognition
System to agriculture.

TRANSFER AGENTS

National Trust Company
Toronto, Vancouver, Winnipeg

Canada Permanent Trust Company
Montreal

The Canadian Bank of Commerce
Trust Company
New York

The British Empire Trust Company, Limited
London, England

REGISTRARS

Crown Trust Company
Toronto, Montreal, Winnipeg, Vancouver

Morgan Guaranty Trust
Company of New York
New York

Lazard Brothers & Co., Ltd.
London, England

STOCK EXCHANGES

The common shares of Massey-Ferguson Limited are listed on the Toronto, Montreal and Vancouver Stock Exchanges in Canada, on the New York Stock Exchange in the United States and on the London Stock Exchange in England. These shares also have unlisted trading privileges on the Midwest Stock Exchange in Chicago, the Philadelphia-Baltimore-Washington Stock Exchange, the Boston Stock Exchange and the Pacific Coast Stock Exchange.

A Large-Scale Farmers' Training Institute, sponsored by the Kenyan Government, the British Overseas Development Agency and Massey-Ferguson, was inaugurated in the autumn of 1971 at Eldoret, Kenya. Details of this and similar training projects in which MF participates are on pages 13-15.

financial highlights

	1971	1970	1969
OPERATING SUMMARY			
Millions of U.S. dollars			
Net sales	**$1,029.3**	$937.9	$969.4
Profit (loss) before taxes and net income of finance subsidiaries	**10.3**	(21.9)	39.9
Net income (loss)	**9.3**	(19.7)	30.2
FINANCIAL STATUS			
Millions of U.S. dollars			
Net current assets	**$ 335.2**	$291.3	$330.4
Long-term debt	**195.3**	180.1	155.7
Capital and retained earnings	**403.7**	394.5	431.5
PER COMMON SHARE			
Net income (loss)—based on the weighted average number of shares (U.S. dollars)	**$ 0.51**	$ (1.08)	$ 1.66
Dividends paid (Canadian dollars)	NIL	1.00	1.00
Equity (U.S. dollars)	**22.19**	21.68	23.72
STATISTICAL DATA			
Number of employees as of October 31	**43,349**	47,386	50,429
Number of shareholders	**41,575**	45,744	39,694
Common shares *(thousands)*—outstanding at year-end	**18,195**	18,195	18,195

Massey-Ferguson Limited

200 UNIVERSITY AVE., TORONTO 1, CANADA

DIRECTORS

*Albert A. Thornbrough
President and Chief Executive Officer

*E. P. Taylor
Chairman, Executive Committee

The Marquess of Abergavenny
Henry Borden, Q.C.
H. J. Carmichael
Lord Crathorne
Hon. Leslie M. Frost, C.C., Q.C.
Charles L. Gundy
Gilbert W. Humphrey
John D. Leitch
*A. Bruce Matthews
*John A. McDougald
*Maxwell C. G. Meighen
John E. Mitchell
M. I. Prichard
John G. Staiger
T. M. Ware
*Colin W. Webster

**Member Executive Committee*

CORPORATE MANAGEMENT

A. A. Thornbrough
President and Chief Executive Officer

J. E. Mitchell EXEC. V.P. AMERICAS
Group Vice President Industrial & Construction Machinery

M. I. Prichard EXEC. V.P. ENGINS.
Group Vice President Engines

J. G. Staiger NO CHANG.
Senior Vice President

R. D. Bibow NO CHANGE
Vice President Farm Machinery

J. A. Belford NO CHANGE
Vice President Personnel & Industrial Relations

P. N. Breyfogle V.P. CORP. V.P.
Vice President Planning and Comptroller

R. W. Main NO CHANGE
Vice President Administration

H. Vajk EXEC. VP 7A.
Vice President Logistics

H. A. R. Powell
Assistant to the President

D. Barker
Treasurer

L. J. Boon
Director Special Operations

P. J. Dixon
Director Management Information Systems

L. E. Elfes
Director Advanced Project Engineering

R. W. MacLaren
Director Public Relations

W. K. Mounfield
Secretary and Director Legal Services

GROUP STAFF

C. L. Baker
Director Farm Machinery Engineering

D. S. Bigelow
Director Farm Machinery Manufacturing & Project Management

W. Reed-Lewis
Director Farm Machinery Marketing

T. H. R. Perkins
Director Supply Engines

C. J. Hind
Director Engineering Engines

V. A. Rice
Director Product Planning & Market Development Engines

W. J. Askins
Director Industrial & Construction Machinery Engineering

J. D. Goodson
Vice President Industrial & Construction Machinery Marketing

R. M. Donovan
Director Industrial & Construction Machinery Manufacturing

OPERATIONS MANAGEMENT

FARM MACHINERY; INDUSTRIAL AND CONSTRUCTION MACHINERY

ARGENTINA—J. J. Campbell, General Manager

AUSTRALIA—H. P. Weber, General Manager

BRAZIL—J. A. Engelbrecht, General Manager

CANADA—J. E. Mitchell, Vice President and General Manager

FRANCE—R. D. Bibow, Vice President and Senior Executive Director

GERMANY—R. D. Bibow, Vice President and Senior Executive Director

ITALY—Dr. F. Fadda, General Manager

SOUTH AFRICA—Dr. L. B. Knoll, General Manager

UNITED KINGDOM/WORLD EXPORT—P. J. Wright, Vice President and General Manager

UNITED STATES—J. E. Mitchell, Vice President and General Manager

INDUSTRIAL AND CONSTRUCTION MACHINERY

CANADA—D. A. Elliot, General Manager

ITALY—Dr. F. Fadda, General Manager

UNITED KINGDOM/WORLD EXPORT—H. A. L. Blogg, General Manager

UNITED STATES—D. A. Elliot, General Manager

ENGINES

Directors responsible for area co-ordination

BRAZIL—R. M. Jennings

NORTH AMERICA—V. O. Griffin

NORTHERN EUROPE—T. Leask

SOUTHERN EUROPE/EASTERN EUROPE—P. E. Poniatowski

INTERNATIONAL—H. Lymath

LICENSEE DEVELOPMENT—K. E. Woollatt

report of the directors to the shareholders

FOR THE YEAR ENDED OCTOBER 31, 1971

CONSOLIDATED RESULTS FOR 1971

Consolidated sales for 1971 reached a record level of U.S. $1,029.3 million, $91.4 million or 9.7 per cent more than in 1970. The table below indicates the sales of each major product group for 1971 and 1970.

During the fourth quarter, sales set a record of $325.9 million, representing 31.7 per cent of the total sales for the year, an increase of 16.6 per cent over the final quarter of last year.

Before the provision for taxes was deducted and the income of the finance subsidiaries added, a profit of $10.3 million was earned in 1971, compared with a loss of $21.9 million last year. Income of the finance subsidiaries was $4.7 million in 1971 and $3.5 million in 1970. The provision for income taxes was $5.7 million against $1.3 million in 1970.

Net income was $9.3 million compared with a net loss of $19.7 million last year. Earnings per share were $0.51 compared with a net loss in 1970 of $1.08 per share.

In view of the substantial loss incurred in 1970, no dividends were declared during 1971. At year-end, 65 per cent of the shares were held by registered shareholders with addresses in Canada and 34 per cent in the United States, compared with 62 per cent in Canada and 36 per cent in the United States in 1970.

During 1971, the company returned to profitability as a result of the increase in farm machinery sales (described in the farm machinery section) and management actions to reduce costs. Although there were continuing inflationary pressures throughout the year, the ratio of cost of goods sold to consolidated sales was reduced to 79.1 per cent compared to 80.2 per cent last year. Marketing, general and administrative expenses were 13.9 per cent of sales, compared to 15.4 per cent last year. Total manpower at fiscal year-end of 43,349 was approximately 9 per cent below 1970 and 14 per cent below 1969.

In the Annual Report for 1970, it was stated that high priority would be assigned in 1971 to the reduction of inventories. Actions taken progressively in 1971 resulted in a reduction of year-end inventories from $362.4 million in 1970 to $335.4 million in 1971, despite the substantial impact of inflation on inventory valuation.

In total, receivables were kept in the same favourable proportion to sales as in 1970. Improved turnover achieved in certain areas was offset by the need to re-balance dealer inventories in North America following the very extensive reductions that took place in 1970 and by the heavy concentration of sales by all units in the fourth quarter. Sales for the month of October alone were $144 million.

	Sales		Per Cent of Total	
	1971	1970	1971	1970
	(Millions of U.S. Dollars)			
Farm Machinery	$ 622.6	$ 518.6	60.5	55.3
Recreation	18.4	26.5	1.8	2.8
Other Products	9.3	11.0	0.9	1.2
	650.3	556.1	63.2	59.3
Industrial & Construction Machinery	121.6	128.1	11.8	13.6
Engines (exclusive of those sold to MF)	107.0	121.6	10.4	13.0
Parts	150.4	132.1	14.6	14.1
TOTAL	$1,029.3	$ 937.9	100.0	100.0

The retail sales control methods in North America described in last year's Annual Report permitted improved scheduling of production. The higher level of wholesale sales and management actions to reduce costs enabled our North American Operations to return to profitability in 1971, a most significant improvement over 1970 results.

During 1971, extensive reorganization of our management structure in the United Kingdom and Europe was undertaken. The United Kingdom Operations Unit and the World Export Operations Unit, based in the United Kingdom, were merged, resulting in more efficient use of staff services and more effective scheduling of production in the factories in the United Kingdom. In France and Germany, lower production costs will result from a rationalization of manufacturing facilities, with progressive concentration of combine assembly at Marquette, France and with the shift of the Eschwege factory in Germany to production of primary components. The German Operations Unit continues to be the company's world-wide source for roller chain and in 1972 will commence production of hydraulic cylinders for farm and industrial and construction machinery.

Major labour disruptions in 1971 were confined to a three-months' strike beginning March 22 which closed all our factories in the United States. This prolonged strike, by disrupting production and dealer supply schedules for certain farm, industrial and recreational products during a peak selling season, had some impact on retail sales.

During the final quarter of our fiscal year, the United States Government introduced a program designed to control inflation, to provide additional employment, and to achieve a more favourable balance of pay-

Massey-Ferguson Argentina, the newest Operations Unit, launched its tractor line in July. This addition brings to seven the number of MF tractor plants world-wide.

ments for the United States. The temporary import surcharge, which was part of this program, was not applied to non-dutiable imports such as farm machinery. However, uncertainties surrounding the "job development tax credit", particularly as it applied to imported farm machinery, had some temporary detrimental effect on retail sales of the company's combines which are manufactured in Canada.

The United States economic measures brought about the freeing of most major currencies from fixed exchange rates and their revaluation in relation to the United States dollar, the currency the company uses in its financial reporting. In addition, there were other currency changes during the year, e.g. devaluations by Argentina and Brazil. The net effect of all exchange adjustments was a gain of $0.6 million for the year.

In December 1971, as a consequence of international agreement on new currency exchange rates, the United States Government announced the termination of the import surcharge and the extension of the tax credit to imported capital goods. The net effect of these measures will be beneficial to the company.

Provision for income tax world-wide of $5.7 million in 1971 was significantly increased from 1970, reflecting improved profitability of some subsidiary companies. However, other subsidiaries remained unprofitable in 1971, resulting in the comparatively high tax charge in relation to net income before tax.

FARM MACHINERY

World-wide sales of farm machinery, (excluding parts)were $622.6 million, compared with $518.6 million in 1970, an increase of 20 per cent. A major proportion of the increase in wholesale sales in 1971 resulted from the fact that 1970 wholesale sales in North America had been sharply limited by management action to reduce dealer inventories and were $50 million below retail sales. In general, wholesale sales in 1971 matched retail sales, although in certain areas it was necessary to rebalance dealer inventories where the 1970 reductions had left insufficient goods in dealer hands. European markets showed no significant growth in physical volume in 1971 and inflation accounted for most of the increase in sales. Brazil and several export markets showed major gains, and the company maintained or increased its share of industry sales in almost all significant farm machinery markets.

North America. In Canada, farm machinery sales by all manufacturers were up about 20 per cent, largely the result of greater crop acreages following the easing of government restrictions on planting. In the United States, uncertain conditions in the general economy throughout 1971 created continued caution in equipment purchases. While industry sales of farm equipment increased 3 per cent in value, there was a decline in total unit sales.

In Canada, the company's sales grew in line with the general demand for farm machinery. In the United States, penetration of the tractor market increased, however sales of combines were affected by the uncertainty created by the Government's economic programs. In both Canada and the United States, larger machines were required for the more efficient cultivation of increased acreage and the harvesting of bumper crops. Increased exports of grain from Canada and higher farm income in both the United States and Canada resulting from larger crops appear to have improved the confidence of farmers in their prospects. Lower interest rates encouraged decisions to purchase more powerful machines, although misgivings about future crop prices in the face of abundant harvests created an offsetting element of uncertainty.

General economic conditions in North America during the year dampened industry sales of snowmobiles and lawn and garden tractors. Company sales were reduced by the long strike in the United States and by the program to reduce dealer inventories.

Europe. In the United Kingdom, the farm machinery market continued to decline in terms of units sold, although inflation and the shift to higher horsepower machines maintained the value of industry sales. Uncertainties about the impact of membership in the European Common Market and a change in the method of granting tax credits on farm machinery contributed to a slowing in the rate of replacement of farm machinery in the United Kingdom in 1971. Despite the fall in the total market, the company's share of the market increased for both tractors and combines.

Massey-Ferguson tractor sales in France were ahead of last year. However, demand for combine harvesters was lower, due to easy harvest conditions.

As noted in last year's Report, sales in Germany by the end of 1970 were beginning to slow in face of credit

restrictions. This trend became pronounced in 1971, when demand for all types of farm machinery dropped. Nevertheless, Massey-Ferguson increased its farm machinery sales and market penetration over last year.

Despite declining market demand in Italy and continuing problems of economic uncertainty and recession, the company's sales were level with last year and market share was improved.

Operations Units in Other Areas. In July 1971, the manufacture and marketing of Massey-Ferguson tractors began in Argentina. The introduction of two models was well received by the expanding network of dealers and by customers. By the end of the year, sales were increasing satisfactorily and operating results were showing major improvements.

The sharp deterioration in the farm machinery market in Australia over the past two years appears to have levelled during the latter part of 1971. More favourable prices for crops and subsidies to wool growers helped to raise farm income. Although sales of Massey-Ferguson farm machinery, especially of combine harvesters, were up by 13 per cent over 1970, the increase was insufficient to avoid a further loss in 1971. An extensive program of cost curtailment was conducted throughout the year and began to show benefits during the latter months. Exports of sugar cane harvesters were well ahead of last year, confirming the leadership of Massey-Ferguson equipment in this growing area of mechanization.

Brazil continued to be an outstanding market for farm machinery. Demand increased further and the company's sales reached record levels, 31.6 per cent above last year. An active government program to encourage the wide-scale use of tractors, combines and other farm machinery has coincided with the rapid growth of the industrial sector, contributing to an impressive rate of growth for the economy as a whole. A major wheat development project, to which Massey-Ferguson is contributing (see pages 13-15 describing the company's world-wide training activities), promises significant benefits for the Brazilian economy, as well as giving further reason for continued confidence in Massey-Ferguson's prospects as the major supplier of farm machinery in Brazil.

Despite a general slowing in the over-all economy in South Africa, good crops kept farm income buoyant. Purchases of machinery were at a high level, especially of combines and more powerful tractors. Sales were increased over 1970, setting a new record.

World Export Operations. The countries covered by this term are those where Massey-Ferguson has neither factories nor Associate Companies, in total about 160 markets, each with its own characteristic trading pattern and competitive situation. Over one-third of Export Operations' total sales are in Europe (excluding France, Germany, and Italy) where industry sales of farm tractors were 10 per cent lower than in 1970. Despite this, the company's over-all penetration was up. Sales in Scandinavia and Austria were significantly ahead, while those in Greece and Switzerland were below 1970 levels. The Export markets in Europe for combines were substantially lower for the industry than in the previous year; nevertheless, Massey-Ferguson again increased its market penetration.

Eicher GmbH, a German company in which Massey-Ferguson has an interest, has developed the MF 132, a low, 30-HP tractor for vineyard, hop and orchard cultivation.

In other territories served by Export Operations (mainly developing countries), total sales were up despite political and economic problems in certain countries. In Africa and the Caribbean area, farm machinery sales were better than anticipated, but in the Export Operations' markets in Latin America they were disappointing. In Asia, sales were at a high level due in part to a contract with a state trading corporation in Ceylon for 1,000 tractors with implements and parts. Some shipments were made against this contract in 1971 and the remainder will be shipped in 1972.

World Export Operations and the Australian company made a major presentation at the Fourteenth Congress of the International Society of Sugar Cane Technologists in New Orleans. Marked interest was shown in the company's sugar cane harvester designed and built in Australia for world-wide sale.

In total, markets in developing countries have generally been characterized by steady growth. This growth, while not spectacular in most areas, has increased annually at a satisfactory rate and is expected to continue to do so as governments encourage agricultural development and scientific advances make possible further increases in crop yields.

In according more importance to agricultural development, governments in developing countries have increased their purchases of farm machinery (as in the case of Ceylon

and Sudan during 1971). The company, which for many years has been a major factor in world-wide farm mechanization, is well established with service and training facilities to support the agricultural sector of developing countries. Training is provided not only by the company but also in co-operation with the Food and Agriculture Organization of the United Nations to ensure maximum benefit is obtained from the machines (as described on pages 13-15).

Associate Companies and Special Operations. In India, Mexico, Morocco, Pakistan, Portugal, Spain, Thailand and Turkey are companies which are licensed to manufacture or assemble the company's farm machinery. Massey-Ferguson has a minority interest in some of these companies. For the Spanish economy, 1971 was a year of recession and retrenchment, following several years of high growth rates. Sales of trucks, industrial and farm machinery, and diesel engines, all products of our Spanish associates, Motor Iberica, were adversely affected. By the year-end, however, sales trends again turned upward, following relaxation of government restrictions on credit.

In Turkey, local assembly and sale of Massey-Ferguson tractors remain at a high volume. However, the Government cancelled foreign investment decrees authorizing the manufacture of both Perkins engines and Massey-Ferguson tractors when it became evident that the original production schedules and timetables for the engine project had become unrealistic in the changing economic circumstances. Discussions with the Turkish Government are continuing.

Sales in Mexico of locally built Massey-Ferguson tractors and implements were slightly ahead of last year, although the rate of expansion of the Mexican economy has slowed. New governmental policies designed to encourage agricultural development appear likely to be implemented in 1972.

The introduction of two new high-performance Ski Whiz snowmobiles extended Massey-Ferguson's line to seven. The new machines have added safety features and improved noise suppression systems.

Concurrent with major advances recently made in agricultural production in India, demand for tractors is at a very high level. Our associates, Tractors and Farm Equipment Limited of Madras, have doubled the planned capacity of their modern tractor plant, but rigidly applied governmental price controls and restrictions on imported components are greatly limiting profitability. The industry is pursuing discussions with the Indian Government to obtain more realistic prices to enable the industry to play a more effective role in the growth of the agricultural sector. India's need for tractors is evident and the company and its local Associate are pursuing every possibility to help meet it.

The company's Associate in Morocco, COMAGI, operating successfully, has acquired new premises providing ample scope for future growth of its tractor assembly. In Thailand and Portugal, assembly operations are continuing satisfactorily. Assembly of tractors in Lahore, Pakistan has been hindered by the absence of a clear government policy to encourage and protect local operations.

During 1972, tractor assembly will begin under licence in Uruguay in response to a recent government requirement. The company is studying the possibility of local tractor assembly or manufacturing projects in Sudan and Ceylon.

A minority share in SOMA, a French manufacturer of automotive, farm and construction machinery components, was sold during the fourth quarter of the fiscal year. SOMA will continue to supply transmissions and axles to the company. After deducting the sales of SOMA, total sales of all Associates and licencees amounted to $176 million in 1971, compared with $200 million in 1970.

New Farm Machinery Products. Products introduced during 1971 were generally of a larger capacity and higher horse-power, a trend which has been evident for many years in North America and more recently in Europe and elsewhere.

North America's largest combine harvester, the MF 760, was introduced to dealers in Canada and the United States during the final quarter of 1971 and will be available in 1972. Its large capacity will meet a need for a machine capable of matching the larger acreages of grain farms. New combines were also introduced in the United Kingdom and Brazil. The MF 620 in the United Kingdom, as in the case of the MF 760 in North America, will meet a market requirement for machines with greater capacity. The MF 210 in Brazil, the first Massey-Ferguson combine to be manufactured there, is quickly gaining market acceptance.

In addition to the introduction of Massey-Ferguson tractors in Argentina noted earlier, four-wheel-drive conversions of the MF 165 and MF 1080 tractors became available in France. In the United Kingdom and

in World Export markets, up-graded models of the current tractor line with safety cabs, improved performance, operator comfort and efficiency became available at the end of the fiscal year. Following the end of the year, the new four-wheel-drive MF 1200 tractor was introduced in the United Kingdom for 1972 sale.

INDUSTRIAL AND CONSTRUCTION MACHINERY

In the uncertain economic climate prevailing in most countries throughout 1971, demand for industrial and construction machinery was generally below the levels of recent years.

In most countries of Europe, major capital projects, including highway and urban developments, were cancelled or postponed, pending easier credit and the removal of government restraints. In France, Massey-Ferguson sales were higher than last year, but in Germany and Italy lower sales reflected the depressed market for capital goods. A major advance in sales was made in Brazil, where in July local manufacture of crawler tractors began. In the United States and Canada, retail sales were close to 1970 levels but a planned program of reduction in dealer inventories kept wholesale sales below the level of retail sales.

The result of the factors noted above was a decline of 5 per cent in world-wide sales of industrial and construction machinery (excluding parts) from $128.1 million in 1970 to $121.6 million in 1971.

During the year, new organization and management control procedures were introduced and the world-wide ICM distribution system continued to be strengthened and expanded, thereby ensuring prompt service and parts supply, as well as wider market coverage. At the principal construction machinery factory in Aprilia, Italy, manufacturing facilities were further improved, and quality control facilities were expanded to incorporate the experience in machine performance gained in a wide variety of climates, terrain and applications since the construction machinery line was introduced in late 1968. The MF 400 crawler and the MF 11 front-wheel-drive loader became generally available in 1971 and new features were added to other machines. Advanced development work is currently in progress on new heavy-duty construction machinery and components, including transmissions and hydraulic systems designed by Massey-Ferguson. More in-plant manufacturing of ICM components is being undertaken at Aprilia and hydraulic cylinders are to be made in the factory at Eschwege, Germany.

As noted in the Annual Report for 1969, a minority interest was purchased in the Simmel company in Italy, a major manufacturer of undercarriage components for crawler tractors. During the past two years, its manufacturing operations have been rationalized and expanded and in 1971 Massey-Ferguson commenced the exclusive marketing of Simmel products outside Italy. Through the company's world-wide distribution channels, it is developing a promising business selling components to other manufacturers and users of crawler machines. Participation by Massey-Ferguson in the Simmel company is a major element in plans for expansion in the construction machinery line and will ensure a dependable supply of high-quality components to both Massey-Ferguson and outside customers.

Crawler tractor manufacturing, starting with the MF 3366 dozer, was begun during the year in Brazil where sales of industrial and construction machinery, as well as farm machinery, increased substantially over1970.

ENGINES

Economic difficulties which emerged in most parts of the world in 1970 and accelerated throughout 1971 adversely affected demand for engines. In contrast with this over-all trend during the year, sales in Brazil increased sharply and production there achieved record levels. In total, however, sales of Perkins engines (excluding parts) to third parties declined from $121.6 million in 1970 to $107.0 million in 1971, or 12 per cent. The value of engines supplied for Massey-Ferguson equipment during 1971 was $59.1 million, compared with $57.8 million in 1970.

To offset the impact on profits of the drop in sales, a concerted effort was made to increase efficiency and reduce costs without adversely affecting Perkins' longer-term capability to take advantage of opportunities for growth. As part of this effort to improve future profitability, the decision was taken in November to cease engine manufacturing operations in France early in 1972. Moteurs Perkins S.A. will continue as a separate sales operation to provide service and engineering support in the French market.

It has been the experience of Perkins that in periods of economic recession the cost-saving and other economic advantages of diesel compared to gasoline engines become more clearly recognized. Moreover, during such periods engine users with capability to manufacture their own engines,

Perkins introduced its most powerful engine, the V8.605 late in 1971. Light and highly economical, the engine meets the need for increased environmental cleanliness together with reduced noise levels.

but faced with limited capital, realize the advantages in purchasing engines from a high-volume supplier such as Perkins. Perkins has undertaken with engines users a large number of application projects some of which should eventually result in increased sales.

A major challenge facing all manufacturers of power units is pollution regulations being introduced throughout the world. The diesel engine has fewer emission problems than gasoline engines currently in production. Nevertheless, Perkins has for many years been carrying out advanced research in control of noise and exhaust pollution. Perkins engines more than meet all current requirements, and research to meet longer-term needs is progressing satisfactorily. A Technical Legislation Department has been established to help assess the requirements of legislation world-wide and to ensure timely compliance.

With regard to completely new forms of engine design, Perkins has over the years done detailed evaluation of various types, including the Wankel rotary and the gas turbine engines. Work continues to be done within the Perkins range of applications to ensure that advantage can be taken of any technical breakthrough.

Late in the calendar year 1971, Perkins introduced the V8.605 for automotive, industrial and agricultural applications. With a power rating of 205/225 BHP, the new engine is significantly more powerful than the V8.510, indicative of the worldwide trend toward higher horsepower in road-transport vehicles and other applications.

INDUSTRIAL RELATIONS

At the beginning of 1971, separate negotiations with manufacturing employees in Canada and in the United States were underway. In Canada, an agreement running until September 1, 1972 was concluded in March. In the United States, however, it was not until June 26, after three months of strike, that all issues were finally settled and agreements ratified to run until October 1973. The United States Government's wage and price freeze imposed in August 1971 had little effect on these agreements because of the contractual timing of wage adjustments. Phase II of the United States' economic program will not modify the provisions of the company's labour agreement in regard to 1972 wage increases.

In the United Kingdom, wage and salary negotiations affecting all categories of union members at all factories were concluded in April without work stoppages.

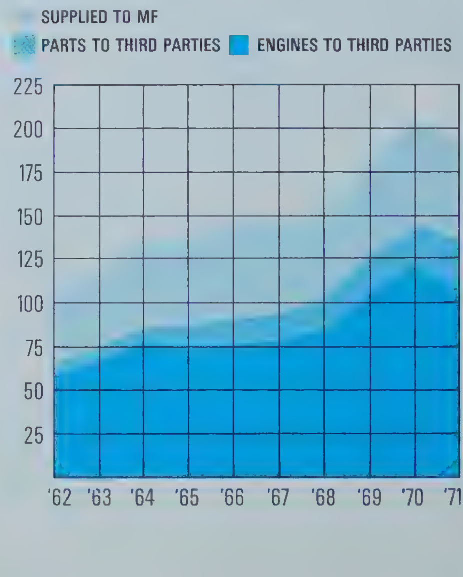
In general, the company was able to meet production programs in spite of a number of suppliers' strikes in the United Kingdom, the most serious of which affected electrical components during August and September. In the last quarter of 1971, manufacturing in the Coventry area was also disturbed by a community-wide toolroom rates dispute between unions and the Engineering Employers' Federation, of which Massey-Ferguson is not a member. A series of one-day strikes and a ban on overtime in the district upset tractor production schedules. Production losses were, however, recovered during the fiscal year although with some additional manufacturing costs.

There was industrial unrest throughout France during the first half of the year, but the company's operations were not significantly disturbed. By the fourth quarter, the national industrial relations climate had ameliorated.

In Germany, relative stability and freedom from work stoppages prevailed during most of 1971. However, in November a strike of metalworkers in Baden-Württemberg in support of wage increases considered inflationary by the government and employers gave cause for concern about future developments in industrial relations in Germany. The company's operations there were not directly affected by this strike.

Labour disturbances in Italy reflected the country's economic recession and political unrest. Negotiations were, however, successfully concluded in March for the company's farm machinery employees and in July

ENGINES GROUP SALES
(MILLIONS OF U.S. DOLLARS)



for those in construction machinery manufacturing. In other Operations Units, satisfactory agreements were reached or remained in effect.

MANAGEMENT CHANGES

The following senior management changes were made either during or following the 1971 fiscal year. R. D. Bibow became Senior Executive Director France and Germany; following the resignation of R. Durrer; Mr. Bibow retains his responsibilities as Vice President Farm Machinery. P. N. Breyfogle, Comptroller, was appointed Vice President Planning and Comptroller, and R. W. Main, Vice President and Secretary, was appointed Vice President Administration. W. K. Mounfield, formerly Assistant Secretary, was appointed Secretary and Director Legal Services. J. D. Goodson, Director Industrial and Construction Machinery Marketing was appointed Vice President Industrial and Construction Machinery Marketing. P. E. Moate, formerly Director Personnel and Industrial Relations, Engines Group, became Director Organization Structure and Processes; R. W. MacLaren, formerly Assistant to the Vice President Public Relations, became Director Public Relations on the retirement of H. G. Kettle, Vice President Public Relations. J. P. Wleugel resigned as Treasurer effective December 31, 1971 and was succeeded by D. Barker, formerly Assistant Treasurer and Director Finance, London. J. A. Evans retired as Director Legal Services. H. A. Sherman, formerly Assistant Comptroller—Taxation, became Director Taxation.

J. W. Beith retired as Chairman, Massey-Ferguson (United Kingdom) Limited.

In the Industrial and Construction Machinery Group, H. A. L. Blogg became General Manager ICM United Kingdom and World Export Operations upon relinquishing his position as Director Marketing, South Africa. D. A. Elliott, formerly General Manager ICM United Kingdom, became General Manager ICM North America.

In the Engines Group, T. H. R. Perkins, Deputy Managing Director, assumed the additional responsibility of Director Supply. T. Leask became Director Northern Europe, and K. E. Woollatt was appointed Director Licensee Development. J. Winstanley, Director Product Planning and Market Development, resigned effective January 31, 1972 and was succeeded by V. A. Rice, formerly Director Finance.

OUTLOOK FOR 1972

The market outlook world-wide for Massey-Ferguson's three main products is likely to continue at 1971 levels with the possibility of improvement in some areas as the year progresses. Demand for farm machinery in Canada and the United States is expected to continue its current upward trend, following several years at depressed levels. In Canada, export sales of grains should encourage purchases and in the United States the market should be assisted by recent government measures to stimulate the economy and to reduce the rate of inflation. Notwithstanding a probable increase in the amount of land withdrawn from cultivation, farm income in the United States should improve in the latter part of the year from better livestock and crop prices and increased government payments, resulting in moderately increased demand for farm equipment.

Prospects in Europe are mixed, but over-all would appear to be equal to or slightly better than in 1971, although there is still the vulnerability to economic recession. France is likely to continue as a buoyant market and the United Kingdom is showing signs of improvement over 1971. If government plans are successfully implemented, Italy should improve, particularly for construction machinery sales. Germany, however, shows signs of declining market demand. Brazil, Argentina and Export markets will probably continue their 1971 growth pattern.

The MF Brighton Beach Cleaner, recently introduced in Australia, removes litter from one acre of beach an hour. Interest is being shown by countries as far away as Brazil.

Industrial and construction machinery sales are expected to increase in 1972. In Canada and the United States, where there is a significant backlog in demand for housing and many other construction projects, the economic environment should encourage sales, especially if interest rates decline further. In Europe, the outlook is more uncertain, since demand will be influenced by government programs.

Demand for diesel engines is directly related to the general economic environment and physical volume is not expected to be significantly higher in 1972. However, if current forecasts of economic recovery and growth in North America and in some European countries materialize, engine sales will benefit.

In 1972 one of the uncertainties confronting any company engaged in international trade will be the degree of success achieved in the realignment of currency exchange rates. The repercussions on international

trade of the decision of the United States to devalue its currency are not yet clear, but Massey-Ferguson should benefit from the increase in value of several other major currencies, as well as from any stimulus to world trade resulting from realignment of exchange rates.

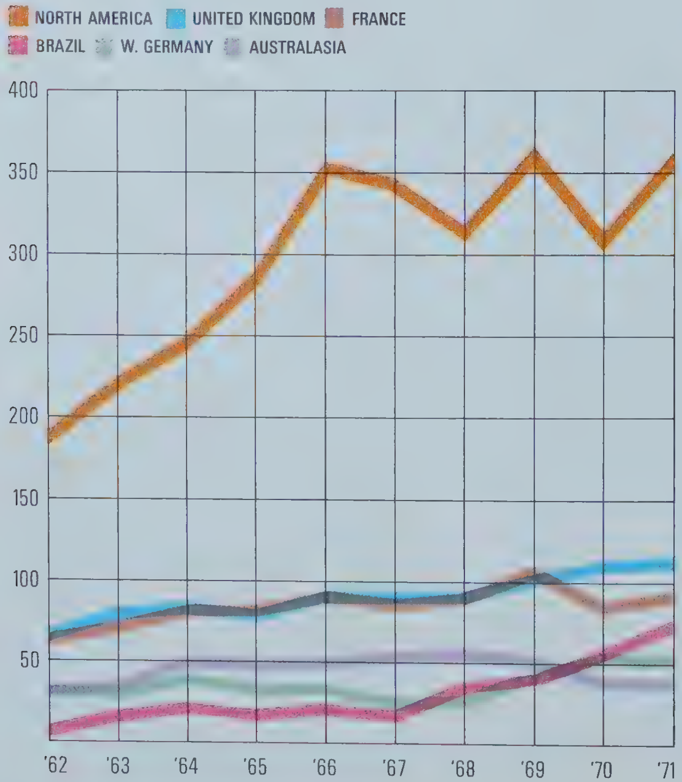
Management actions and the increased market penetration achieved during 1970 and 1971 place Massey-Ferguson in a position to benefit from any upturn in market demand. Profitability should be enhanced by continuing action programs to reduce costs and to improve further the utilization of assets.

To employees, distributors and dealers, and Associate Companies, we extend our warm appreciation for their successful efforts to restore profitability in 1971.

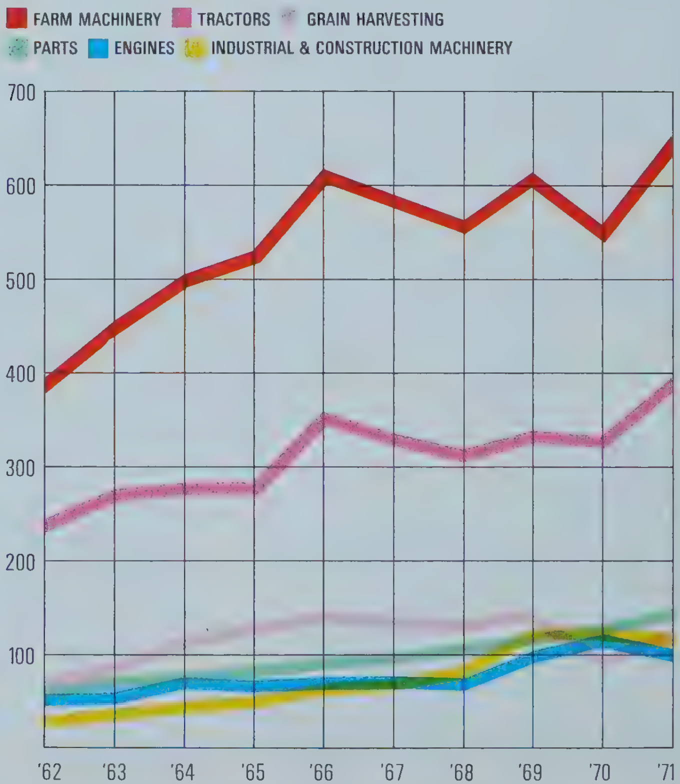
Albert A. Thornbrough

President and
Chief Executive Officer
Toronto, January 25, 1972

NET SALES BY MARKETS
(MILLIONS OF U.S. DOLLARS)



NET SALES BY PRODUCTS
(MILLIONS OF U.S. DOLLARS)



Massey-Ferguson's world-wide training programs

The Massey-Ferguson Training Centre, Stoneleigh, England, is composed of the School of Farm Machinery and the Industrial and Construction Machinery School. Since its inauguration in 1947, some 25,000 students have attended from the U.K. and overseas. The school's training instructors often travel abroad to assist distributors in their training programs and advise governments on their agricultural planning.

Often one of the biggest obstacles facing governments and other agencies in attempting to raise the standard of life in both developed and developing countries is a shortage of trained people. Massey-Ferguson has long engaged in a variety of training activities intended to help reduce this obstacle to development.

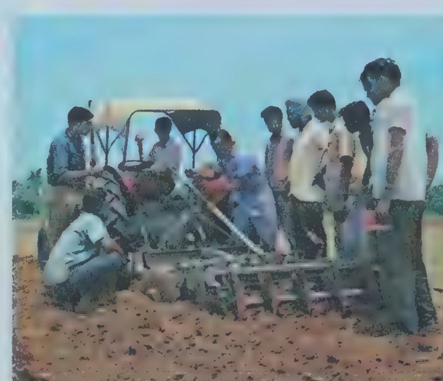
Massey-Ferguson's attitude to the transfer of knowledge is one of "enlightened self-interest". Inherent in the company's marketing policies and practices is the conviction that neither commercial objectives nor responsibility to the customer is fulfilled merely by making a sale.

There are two prime conditions to be met: the customer should be instructed in how to operate and maintain the machine, so that he may derive the optimum benefits from its use, and he must have access to highly skilled after-sales service. The proper selection, operation, maintenance and repair of modern machinery requires considerable knowledge and skill. Education, therefore, is of paramount importance.

The company's training activities have long been conducted around the world. During the 125 years of Massey-Ferguson's operations, training has been provided in a wide variety of ways, often under the supervision of sales staff. These activities received a vigorous impetus from the late Harry Ferguson. When his Ferguson System tractor was first introduced widely, he was quick to recognize that training would become increasingly important if it and the advanced designs and equipment that were to follow were to be used to their greatest benefit.

In 1947 he set up a school in a small office in Coventry, England, and opened the doors to anyone who wanted to learn about new methods of farm mechanization. Training is now carried on in scores of countries in varying ways, and has been extended to the operation of industrial and construction machinery and engines.

The largest of the schools, at Stoneleigh in England, draws about 80 per cent of its overseas students from developing countries. It is helping to solve the problem of broadcasting information about new ideas and techniques in developing areas where they are most needed. In doing so, students from developing countries go to England for training or go to schools in several other countries or receive local instruction from visiting teachers sent from Massey-Ferguson training centres. The task is an enormous one, made even more complex by the multiplicity of languages and attitudes, and distances involved. At the 500-acre centre in Stoneleigh, the classrooms and the workshops have become a minor United Nations as students from all parts of the world live and work together. Over the last three years 60 countries were represented. The courses are divided into



Tractors and Farm Equipment Limited, an Associate Company, operates a training centre at Pudupakkam, near Madras. Some 60 students attend at one time. Instruction is given in all the major Indian languages.

The Lençois Paulista training school, operated by Massey-Ferguson do Brasil, has trained about 3,800 students, including visitors from Argentina, Bolivia, Colombia, Peru, Uruguay and Paraguay, since 1968.

Dr. John Gibler, in the field with his staff, is Massey-Ferguson's representative in the Brazilian wheat development program. He is a former associate in Mexico of Nobel Peace Prize winner Dr. Norman Borlaug.

Students from several West African countries are shown at a Stoneleigh class learning proper maintenance and repair of a combine. Most instructors are multilingual.

basic categories of training in repair and maintenance, and the handling and application of equipment. They vary in length from a week to six months, with training provided by staff who speak French, German and Spanish, as well as English.

Over the years Massey-Ferguson has established a network of similar, though smaller, schools strategically located to provide maximum coverage. In France, Italy, Brazil, Australia, India, South Africa and Spain are centres modelled mainly on Stoneleigh, some giving training in farm machinery, some also offering instruction on industrial and construction machinery.

The Stoneleigh school was also used as a model for the South American Farm Mechanization Training Centre at Buga, Colombia, established jointly by the Government of Colombia, the Food and Agriculture Organization of the United Nations (FAO) and Massey-Ferguson to serve the whole of Spanish-speaking Latin America.

A similar project with which the company is involved is at Eldoret, Kenya, where the Large-Scale Farmers' Training Institute has been established by the Kenyan Government with the assistance of the British Overseas Development Agency and Massey-Ferguson. Owners of 200 or more acres are being trained in the operation and maintenance of equipment, supplied by the company, under the over-all supervision of an experienced MF instructor.

The schools in Colombia and Kenya, and the company's own establishments in England and Australia, are currently the locations for a series of Fellowship Courses offered to students from developing countries through FAO. The company welcomed the funds the Canadian International Development Agency made available to help this project.

Another form of assistance in agricultural mechanization by the company is the provision of equipment for the use by training establishments. An example is at Karaj, Iran, where the Agricultural Machinery and Soil Conservation Training Centre has been supplied with a range of tractors and general equipment.

The emphasis at Stoneleigh, as at all other Massey-Ferguson training centres, is on practical instruction. Farm and industrial and construction machinery has been brought from the company plants in every part of the world. They include British and French-built tractors, German combines, Canadian balers, Australian sugar cane harvesters, U.S. forestry equipment, and Italian loaders, dozers and hydraulic excavators.

Demand for courses is so widespread that it has generally been necessary to restrict them to key personnel of distributors and dealers and to selected agricultural and other students recommended by their respective governments or colleges or international organizations such as FAO.

An agreement to expand the Buga, Colombia, farm mechanization training program was recently signed by the sponsors, the Colombian Government, the Food and Agriculture Organization and Massey-Ferguson.

Mobile training vans provide an invaluable means of bringing the classroom to the students, whether in developing or developed countries. This trailer classroom is stationed in Lourenço Marques, Mozambique.

Most of the students who take courses have supervisory or advisory responsibilities in their home countries. On their return, they pass on their knowledge to others, thus increasing further the numbers of technicians and skilled operators on whom the industrial and agricultural development of their countries depend.

Massey-Ferguson also staffs its overseas offices with training specialists. Such offices are in Kenya, covering much of Africa; Beirut, covering the Middle East; San Juan, covering the Caribbean and Central America; Lima, covering South America, and Singapore, covering the Far East.

The role of these regional specialists is to assist and work with distributors' training staffs in providing programs to meet the needs and special circumstances of their respective countries. Instruction varies from lectures or single day courses in a particular aspect of machinery operation or maintenance at a distributor-operated training school to more extensive courses covering a comprehensive range of machinery for staffs of government departments or groups of students at technical schools. Frequently the specialists assist at refresher courses for mechanics, servicemen and salesmen of the distributor and dealer organizations.

To ensure the widest possible coverage, mobile training units have also operated in Europe and the Middle East. These large, fully equipped vehicles can quickly be adapted for use as classrooms, cinemas or workshops to provide on-the-spot instruction whenever and wherever required.

Training of a still different type is being provided by Massey-Ferguson through co-sponsorship of a wheat project in Brazil. As part of the joint undertaking with the Governments of Brazil and of the State of Rio Grande do Sul and with the Brazilian Wheat Growers Cooperative, Massey-Ferguson is providing training in grain development for Brazilian plant specialists, agronomists and other scientists. The project, under the technical direction of Dr. John Gibler, is now two years old, and seems likely to make a major contribution to Brazilian economic growth through the development of new, high-yield strains of wheat suitable for local conditions.

The Engines Group has its own school at its Peterborough, England, headquarters. Here, training is provided in workshop practice and servicing of vehicles, tractors, combines, and industrial equipment powered by Perkins engines, and in the operation and care of marine engines for builders and owners of Perkins-powered craft. Members of the Product Education Department at Peterborough travel the world to provide courses at the request of major manufacturing customers and overseas distributors.

In these many ways, there remain few, if any, parts of the non-communist world untouched by the company's total training program. Its achievements grow continually as those who are trained disseminate the knowledge and skills they have acquired, in farm mechanization, construction work and engine uses.

The Product Education Department of the Perkins Engines Group provides training at Peterborough, England, for some 400 students a year. About 40 per cent come from overseas countries. Courses on a particular engine usually last five days, but a comprehensive course covering a range of engines can last up to 12 weeks.

Clarkson, Gordon & Co.
Chartered Accountants

To the Shareholders of
Massey-Ferguson Limited:

We have examined the consolidated balance sheet of Massey-Ferguson Limited and its consolidated subsidiaries as at October 31, 1971, and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. We have also examined the combined statement of assets and liabilities of Massey-Ferguson Finance Company of Canada Limited, Massey-Ferguson Credit Corporation and its subsidiaries and Massey-Ferguson Export Finance Company Limited as at October 31, 1971, and the combined statement of income and retained earnings for the year then ended. Our examinations included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly (a) the financial position of Massey-Ferguson Limited and its consolidated subsidiaries as at October 31, 1971, and the results of their operations and the changes in their financial position for the year then ended and (b) the combined assets and liabilities of Massey-Ferguson Finance Company of Canada Limited, Massey-Ferguson Credit Corporation and its subsidiaries and Massey-Ferguson Export Finance Company Limited as at October 31, 1971, and the results of their operations for the year then ended, all in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co

Toronto, Canada,
December 17, 1971.

Chartered Accountants

Massey-Ferguson Limited

CONSOLIDATED STATEMENT OF INCOME

Year ended October 31, 1971 (with comparative figures for 1970)
(Thousands of U.S. Dollars)

	1971	1970
SALES AND OTHER INCOME:		
Net sales	$1,029,338	$937,903
Interest and sundry income	13,275	12,985
Profit on disposal of capital assets	2,382	554
TOTAL SALES AND OTHER INCOME	1,044,995	951,442
Deduct:		
Cost of goods sold	814,648	751,830
Marketing, general and administrative expenses	143,281	144,119
Engineering expenses	24,302	25,947
Interest on long-term debt	13,520	12,396
Interest on bank and other short-term debt	37,029	37,324
Exchange adjustments	(619)	882
Minority interest	2,576	842
	1,034,737	973,340
PROFIT (LOSS) BEFORE INCOME TAXES AND NET INCOME OF FINANCE SUBSIDIARIES	10,258	(21,898)
Income Taxes:		
Before reduction due to tax credits	7,643	2,007
Tax credits (Note 5)	(1,900)	(700)
	5,743	1,307
PROFIT (LOSS) BEFORE NET INCOME OF FINANCE SUBSIDIARIES	4,515	(23,205)
Net income of Finance Subsidiaries (Note 1)	4,740	3,517
NET INCOME (LOSS) FOR THE YEAR	$ 9,255	$ (19,688)
NET INCOME (LOSS) PER SHARE (in dollars)	$ 0.51	$ (1.08)

(See accompanying Notes to Consolidated Financial Statements)

Massey-Fer

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October 31, 1971 (with compa
(Thousands

ASSETS

	1971	1970
CURRENT ASSETS:		
Cash	$ 33,060	$ 27,563
Receivables (Note 2)	339,102	309,057
Inventories, valued at the lower of cost or net realizable value—		
Raw materials and work in process	146,603	156,438
Finished goods	188,816	205,994
Total inventories	335,419	362,432
Prepaid expenses and other current assets (Note 5)	30,023	34,191
TOTAL CURRENT ASSETS	737,604	733,243
INVESTMENTS:		
Wholly owned finance companies, at equity in net assets (Note 1)	36,860	32,149
Associate companies, at cost	28,468	33,369
	65,328	65,518
FIXED ASSETS:		
Land	9,336	8,975
Buildings	129,545	128,940
Machinery and equipment	278,783	271,543
Production tooling	31,936	29,534
Total fixed assets, at cost	449,600	438,992
Less accumulated depreciation and amortization (Note 3)	263,330	245,519
	186,270	193,473
OTHER ASSETS AND DEFERRED CHARGES (Note 5)	21,826	19,485
	$1,011,028	$1,011,719

ON BEHALF OF THE BOARD:
E. P. Taylor, Director
Albert A. Thornbrough, Director

uson Limited

HE LAWS OF CANADA)

BALANCE SHEET

ve figures at October 31, 1970)
.S. Dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1971	1970
CURRENT LIABILITIES:		
Bank borrowings (Note 4)	**$ 167,687**	$ 188,888
Other short-term borrowings	**12,084**	7,071
Accounts payable and accrued charges	**196,463**	211,489
Income, sales and other taxes payable	**23,299**	20,020
Dividends payable		4,458
Advance payments from customers	**2,893**	10,044
TOTAL CURRENT LIABILITIES	**402,426**	441,970
DEFERRED INCOME TAXES (Note 5)	**1,955**	1,494
LONG-TERM DEBT:		
Bonds, debentures, notes and loans (Note 4)	**195,311**	180,075
Less instalments maturing within one year, included with accounts payable and accrued charges	**8,348**	20,073
	186,963	160,002
MINORITY INTEREST IN SUBSIDIARIES	**15,948**	13,772
SHAREHOLDERS' EQUITY:		
Share capital (Note 8)	**176,061**	176,061
Retained earnings (including retained earnings of unconsolidated finance companies: October 31, 1971—$22,639; October 31, 1970—$17,928) (Note 7)	**227,675**	218,420
	403,736	394,481
	$1,011,028	$1,011,719

(See accompanying Notes to Consolidated Financial Statements)

Massey-Ferguson Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended October 31, 1971 (with comparative figures for 1970)
(Thousands of U.S. Dollars)

	1971	1970
SOURCE OF FUNDS:		
Net income (loss) for the year	$ 9,255	$ (19,688)
Add (deduct):		
Depreciation, and amortization of production tooling	30,459	30,493
Equity in earnings of finance companies in excess of dividends received	(4,711)	(3,488)
Increase (decrease) in deferred income taxes	461	(3,169)
Tax recovery debits (Note 5)	(1,979)	(2,043)
Funds From Operations	33,485	2,105
Change in investments in Associate Companies	4,901	(3,318)
Issues of long-term debt (Note 4)	51,004	45,491
Net book value of fixed asset disposals	3,758	2,223
Increase in minority interest in subsidiaries	2,176	601
TOTAL FUNDS PROVIDED	$ 95,324	$ 47,102
USE OF FUNDS:		
Additions to fixed assets	$ 27,014	$ 42,894
Reduction in long-term debt	24,043	22,420
Dividends paid		17,342
Investment in finance subsidiaries		400
Increase in other assets and deferred charges	362	3,190
Increase (decrease) in working capital as set out below	43,905	(39,144)
TOTAL FUNDS USED	$ 95,324	$ 47,102
CHANGES IN ELEMENTS OF WORKING CAPITAL:		
WORKING CAPITAL AT BEGINNING OF YEAR	$291,273	$330,417
Current assets—increase (decrease):		
Cash	5,497	1,032
Receivables	30,045	(83,743)
Inventories	(27,013)	60,804
Prepaid expenses and other current assets	(4,168)	(2,865)
	4,361	(24,772)
Current liabilities—decrease (increase):		
Bank and other short-term borrowings	16,188	(26,353)
Accounts payable, accrued expenses and dividends payable	19,484	(3,362)
Advance payments from customers	7,151	(2,793)
Income, sales and other taxes payable	(3,279)	18,136
	39,544	(14,372)
NET INCREASE (DECREASE) IN WORKING CAPITAL	43,905	(39,144)
WORKING CAPITAL AT END OF YEAR	$335,178	$291,273

(See accompanying Notes to Consolidated Financial Statements)

Massey-Ferguson Limited

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended October 31, 1971 (with comparative figures for 1970)
(Thousands of U.S. Dollars)

	1971	1970
BALANCE AT BEGINNING OF YEAR	**$218,420**	$255,450
Net income (loss) for the year	**9,255**	(19,688)
	227,675	235,762
Deduct cash dividends (Canadian $1 per share in 1970)	NIL	17,342
BALANCE AT END OF YEAR	**$227,675**	$218,420

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended October 31, 1971 (with comparative figures for 1970)
(In U.S. Dollars)

1. BASIS OF CONSOLIDATION AND EXCHANGE TRANSLATION

The accompanying financial statements consolidate the accounts of all subsidiary companies except for the three wholly owned finance companies, two in North America and one in the United Kingdom, which are not consolidated because of the different nature of their business. Combined statements of the finance subsidiaries are set out separately on page 25. The investment in these companies is carried in the Consolidated Balance Sheet at the equity in their net assets and their earnings have been included in the Consolidated Statement of Income.

The statements of companies outside the United States have been translated into U.S. dollars as follows: current assets, current liabilities and long-term debt at exchange rates prevailing at the end of the period; investments, fixed assets and depreciation provisions on the basis of rates prevailing at date of acquisition; income and expenses (other than depreciation provisions) at average rates during the period. Exchange gains or losses from such translation practices are reflected in the Consolidated Statement of Income.

2. RECEIVABLES

(a) Receivables include amounts due from finance subsidiaries of $12,526,000 in 1971 and $5,331,000 in 1970.

(b) A major portion of the receivables consists of non-interest-bearing notes received from dealers. Approximately $80,000,000 or 24% in 1971 ($60,000,000 or 19% in 1970) of receivables mature beyond one year (subject to earlier settlement when the product is sold by the dealer) but are included in current assets in accordance with accounting practice in the industry.

(c) Receivables are shown net of the following provisions:

	1971	1970
Allowance for doubtful notes and accounts	**$ 8,499,000**	$ 7,110,000
Volume and performance bonuses, returns and other allowances	**13,345,000**	12,733,000
Unearned interest	**1,855,000**	1,598,000
	$23,699,000	$21,441,000

3. DEPRECIATION AND AMORTIZATION

Depreciation of facilities is provided at rates which are designed to write off the assets over their estimated useful lives as follows:

Buildings	5 to 50 years
Machinery and Equipment	3 to 10 years
Trucks and Automobiles	3 to 5 years
Office Furniture and Equipment	5 to 10 years

Production tooling for new products and for major product changes is generally amortized over a three-year period commencing with the first year of full utilization of the tooling concerned; tooling for replacements and for minor product changes is charged against income at the time of purchase.

Depreciation, and amortization of production tooling charged to operations in 1971 totaled $30,459,000 (1970—$30,493,000).

4. LONG-TERM DEBT

(a) *Repayable in currency of country indicated; maturity dates shown are for fiscal years ending October 31:*

	(Thousands of U.S. Dollars)	
	October 31 1971	October 31 1970
MASSEY-FERGUSON (AUSTRALIA) LIMITED:		
9½% First Mortgage Debenture Stock (refunded in 1971)		$ 2,547
MASSEY-FERGUSON S.A. (FRANCE):		
7% Mortgage Loans maturing 1972-75	**$ 942**	1,254
8¼% Bank Loan maturing 1978-80	**6,697**	4,538
Guaranteed Bank Loan maturing 1973-75 repayable in U.S. dollars (bearing interest at ¾% above Eurodollar interbank rate)	**3,009**	
MOTEURS PERKINS S.A. (FRANCE):		
8¼% Bank Loan (transferred in 1971 to Massey-Ferguson S.A.)		2,172
MASSEY-FERGUSON GmbH (GERMANY):		
2½% Unsecured Loan maturing 1972-74	**169**	207
2½%-3½% Mortgage Loans maturing 1972-98	**2,846**	2,786
7½% Bank Loan maturing 1978-80	**6,000**	5,500
MASSEY-FERGUSON ICM S.p.A. (ITALY):		
3%-4% Mortgage Loans maturing 1972-83	**10,997**	6,432
MASSEY-FERGUSON LANDINI S.p.A. (ITALY):		
9% Mortgage Loan maturing 1972-82 (repayable in U.S. dollars)	**1,800**	1,933
MASSEY-FERGUSON INDUSTRIES LIMITED (CANADA):		
5⅞% Secured Promissory Note maturing 1972-85	**19,250**	20,221
8% Mortgage Loan maturing 1972-75	**435**	
MASSEY-FERGUSON INC. (U.S.A.):		
5¼% Promissory Notes maturing 1972-83	**23,600**	25,500
5⅞% Subordinated Notes maturing 1972-84	**24,480**	26,040
MASSEY-FERGUSON HOLDINGS LIMITED (UNITED KINGDOM):		
7½% Unsecured Loan Stock maturing 1972-92	**31,175**	29,875
Unsecured Bank Loans maturing 1973-79 (bearing interest at 2%-2½% above Bank of England rediscount rate)	**14,839**	22,348
MASSEY-FERGUSON NEDERLAND N.V.:		
9% Guaranteed Sinking Fund Debentures maturing 1972-82 (repayable in U.S. dollars)	**20,000**	20,000
7½% Bank Loan maturing 1978-80 (repayable in German marks)	**6,000**	5,500
MASSEY-FERGUSON REALTY CORPORATION (U.S.A.):		
Mortgage Loan maturing 1972-80 (bearing interest at ½% above prime rate)	**1,846**	1,962
GENERAL BANK STANDBY LOAN: (Note 4c)		
Guaranteed Loan repayable in U.S. dollars renewable until 1975 (bearing interest at ¾% above Eurodollar interbank rate)	**20,000**	
OTHER LONG-TERM DEBT:	**1,226**	1,260
	$195,311	$180,075

(b) Sinking fund requirements and debt maturities during the next five years are as follows:
1972 — $8,348,000; 1973 — $11,152,000;
1974 — $12,989,000; 1975 — $32,855,000;
1976 — $12,006,000.

(c) In 1970, a U.S. $30 million Eurodollar five-year revolving credit line was negotiated with a group of European banks. This can be drawn upon and repaid at the company's option. At October 31, 1970, it was intended that the U.S. $20 million then outstanding would be repaid in the following year and it was classified as short-term debt. As the company now intends to use a large portion of this credit line on a more permanent basis, the balance outstanding at October 31, 1971 has been shown as long-term debt.

5. INCOME TAXES

The tax allocation principle of providing for income taxes is followed. Timing differences between reported and taxable income (which occur when revenues and expenses recognized in the accounts in one year are claimed for income tax purposes in another year) result in deferred or prepaid income taxes. These are reported on the balance sheet as follows:

Deferred income taxes ($1,955,000 in 1971 and $1,494,000 in 1970) resulting from capital cost allowances claimed for tax purposes in excess of depreciation recorded in the accounts (shown separately).

Prepaid income taxes ($13,926,000 in 1971 and $15,919,000 in 1970) relating to various provisions made for accounting purposes which have not yet become deductible for tax purposes (grouped with Prepaid Expenses and Other Current Assets).

In addition, tax recovery debits ($4,602,000 in 1971 and $2,623,000 in 1970) are set up in respect of losses represented by unclaimed capital cost allowances where, in the opinion of management, it is virtually certain that future earnings will be sufficient to realize them (grouped with Other Assets and Deferred Charges).

The Tax Credits in the Consolidated Statement of Income for 1971 and 1970 represent tax reductions arising from the carry-forward of prior years' losses and other tax adjustments. At October 31, 1971 certain companies had losses available to be carried forward for which potential recoveries have not been recognized in the accounts; at current tax rates the tax recoveries which would result will, if realized, amount to approximately $20,000,000.

6. CONTINGENT LIABILITIES, COMMITMENTS, ETC.

(a) The total contingent liabilities relating to notes receivable discounted and bills guaranteed etc. were as follows: October 31, 1971—$61,700,000; October 31, 1970—$58,400,000.

(b) Under subscription agreements relating to the short-term bank borrowings and senior and subordinated notes of the two North American finance subsidiaries, Massey-Ferguson Limited has agreed that it will ensure that assets are maintained in those companies in certain specified relationships with their indebtedness.

(c) Approved capital expenditure programs outstanding at the year end were as follows: October 31, 1971 — $26,000,000 (including commitments of approximately $7,500,000); October 31, 1970—$23,000,000 (including commitments of approximately $17,000,000).

(d) A substantial portion of the company's employees are covered by insured or trusteed pension plans. These plans consist mainly of contributory and non-contributory plans for salaried employees and non-contributory plans for hourly employees. Pension costs (including payments into trust funds which have been established to provide for current and future pensions) are charged against income in the year of payment. Total pension expense was $15,800,000 in 1971 and $15,500,000 in 1970 including past service costs. Past service costs in most trusteed plans are being funded over periods of up to 25 years; the remaining unfunded past service cost for all trusteed plans in effect at October 31, 1971 is estimated at approximately $49,000,000 including an estimated $35,000,000 which is actuarially computed to have vested. The companies have no legal obligation with regard to this past service liability including that portion which has vested.

7. DIVIDEND RESTRICTIONS

On March 11, 1971 the directors announced a decision to limit dividend payments to 50% of net income earned in 1971. This decision was subsequently extended to March 31, 1972 and incorporated into a short-term revolving credit agreement which expires on that date.

The long-term loan agreements of certain subsidiary companies contain additional restrictions on the payment of dividends. Under the most restrictive of these, approximately $89,000,000 of consolidated retained earnings is not available for the payment of dividends to shareholders of Massey-Ferguson Limited. Of the remaining $139,000,000 approximately $70,000,000 represents the unrestricted portion of profits of various subsidiaries outside North America which have not been remitted to Canada.

Transfers of earnings from companies outside North America are generally subject to the approval of exchange control authorities, but permission to pay dividends is normally obtainable. Dividend payments from subsidiaries in a number of countries are subject to withholding taxes. As substantially all the unremitted accumulated earnings of such subsidiaries have been re-invested in working capital and fixed assets, and as the amount of earnings which will be transferred in the future and the rates which will be applicable at that time are not known, such taxes are reflected in consolidated earnings only at the time of actual dividend remittance.

8. SHARE CAPITAL, STOCK OPTIONS AND RESERVATION OF SHARES

(a) The authorized share capital consists of 25,000,000 common shares without nominal or par value, of which 18,195,450 shares were outstanding at October 31, 1971 (unchanged from October 31, 1970).

(b) Employee stock options were outstanding at October 31, 1971 with respect to an additional 103,550 common shares exercisable by various dates up to 1976 as follows:

Granted	Option Price (Canadian Dollars)	Outstanding October 31, 1970	Changes During Year: Granted	Changes During Year: Expired	Outstanding October 31, 1971
1965	$30.75	3,500		3,500	
1966	32.25	1,600			1,600
1966	33.63	2,000		2,000	
1966	35.94	3,000			3,000
1967	24.25	1,000			1,000
1968	16.75	4,500		3,500	1,000
1968	17.31	3,000			3,000
1968	18.25	49,150		3,100	46,050
1969	18.13	8,700		3,500	5,200
1969	18.25	9,700			9,700
1969	18.50	1,000			1,000
1969	23.44	7,500			7,500
1970	16.50	3,500		1,000	2,500
1970	9.31	20,000		1,000	19,000
1971	11.13		3,000		3,000
		118,150	3,000	17,600	103,550

Of the outstanding options 44,900 are for Directors and Officers. A further 166,700 unissued common shares are reserved for possible future employee options.

9. STATUTORY INFORMATION

(a) Aggregate remuneration to persons who served as Directors and Officers of Massey-Ferguson Limited at any time during the year was as follows:

	1971		1970	
	19 Directors	18 Officers	18 Directors	18 Officers
	(5 Officers were also Directors)		(4 Officers were also Directors)	
Remuneration paid by:				
Massey-Ferguson Limited (Holding Company)	$54,000	$ 674,000	$53,000	$ 854,000
Subsidiary companies — principally Massey-Ferguson Inc. (U.S.A.)	6,000	496,000	6,000	545,000
	$60,000	$1,170,000	$59,000	$1,399,000

(b) The company's manufacturing and marketing operations are highly integrated and thus it is the opinion of the Directors that the company has only one line of business. Within this business, sales by major categories in millions of U.S. dollars were:

	1971	1970
Farm Machinery	$ 622.6	$518.6
Recreation	18.4	26.5
Other Products	9.3	11.0
	650.3	556.1
Industrial & Construction Machinery	121.6	128.1
Engines (exclusive of those sold to MF)	107.0	121.6
Parts	150.4	132.1
Total	$1,029.3	$937.9

Massey-Ferguson Finance Company of Canada Limited
Massey-Ferguson Credit Corporation and its subsidiaries
Massey-Ferguson Export Finance Company Limited

COMBINED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended October 31, 1971 (with comparative figures for 1970)
(Thousands of U.S. Dollars)

	1971	1970
REVENUE:		
Interest and finance fees	$30,850	$25,923
Discounts	2,476	1,956
	33,326	27,879
EXPENSES:		
Administrative expenses	8,177	8,023
Interest on long-term debt	8,044	5,160
Interest on short-term debt	7,616	7,923
Provision for doubtful accounts	461	401
Exchange adjustments	(155)	(484)
	24,143	21,023
INCOME BEFORE INCOME TAXES	9,183	6,856
Provision for income taxes:		
Current	5,861	2,043
Deferred	(1,418)	1,296
	4,443	3,339
NET INCOME FOR THE YEAR	4,740	3,517
RETAINED EARNINGS AT BEGINNING OF YEAR	17,928	14,440
	22,668	17,957
Dividends on preferred shares	29	29
RETAINED EARNINGS AT END OF YEAR	$22,639	$17,928

COMBINED STATEMENT OF ASSETS AND LIABILITIES

October 31, 1971 (with comparative figures at October 31, 1970)
(Thousands of U.S. Dollars)

	1971	1970
ASSETS:		
Cash	$ 7,321	$ 2,777
Receivables (Note 2)	301,315	304,216
Prepaid expenses	2,560	3,986
Property leased to an affiliate (at cost less accumulated depreciation of $400 in 1971 and $279 in 1970)	3,391	3,202
	$314,587	$314,181
LIABILITIES:		
Short-term notes payable — Banks	$103,056	$122,589
— Others	23,964	54,356
Due to affiliates	12,526	5,331
Dealer deposits	4,967	4,694
Accrued charges	5,126	2,812
Income taxes payable	1,030	134
Deferred income taxes	3,808	5,226
Long-term debt (Note 3)	123,250	86,890
	277,727	282,032
Equity of Massey-Ferguson Limited and its subsidiaries:		
Share capital	14,221	14,221
Retained earnings (Note 3)	22,639	17,928
	36,860	32,149
	$314,587	$314,181

(See accompanying Notes to Combined Finance Companies' Statements)

NOTES TO COMBINED FINANCE COMPANIES' STATEMENTS

Year ended October 31, 1971 (with comparative figures for 1970)

(In U.S. Dollars)

1. BASIS OF PRESENTATION

The accompanying financial statements combine the accounts of Massey-Ferguson Finance Company of Canada Limited, Massey-Ferguson Credit Corporation (U.S.A.) and its subsidiaries and Massey-Ferguson Export Finance Company Limited (U.K.).

The statements of the Canadian and United Kingdom companies have been translated into U.S. dollars as follows: assets and liabilities at exchange rates prevailing at the end of the period; share capital at rates prevailing at date of issue; revenue and expenses at average exchange rates during the period. Exchange gains or losses from such translation practices are reflected in the combined statement of income.

While the books of the Canadian and United States companies are maintained, and their tax returns are filed, on a modified cash basis of accounting, the accompanying financial statements incorporate adjustments to reflect the financial position of the companies on an accrual basis of accounting.

2. RECEIVABLES

Receivables are shown net of the following provisons: unearned interest and discount 1971 — $48,376,000; 1970 — $44,417,000; allowance for doubtful accounts 1971 — $1,901,000; 1970 — $1,669,000.

At October 31, 1971 approximately $177,500,000 (before provisions) or 50% of the Receivables mature beyond one year. The comparable amount at October 31, 1970 was $182,600,000 or 52%.

Included in the North American receivables are wholesale receivables of $20,217,000 in 1971 and $18,410,000 in 1970.

3. LONG-TERM DEBT

(a) Repayable in currency of country indicated; maturity dates shown are for fiscal years ending October 31:

	(Thousands of U.S. Dollars) **October 31, 1971**	October 31, 1970
MASSEY-FERGUSON FINANCE COMPANY OF CANADA LIMITED:		
9¾% Senior Debentures maturing 1980	**$ 10,000**	$ 9,800
8¾% Subordinated Notes maturing 1972-74	**2,000**	1,960
8½% Subordinated Notes maturing 1975-84	**6,000**	5,880
MASSEY-FERGUSON CREDIT CORPORATION (U.S.A.):		
5% Senior Note matured 1971		3,000
7⅝% Senior Notes maturing 1973-88	**21,000**	21,000
Senior Loan maturing 1974-76 (bearing interest at 1¼% above Eurodollar interbank rate)	**25,000**	
Senior Loan maturing 1975 (bearing interest at 1% above Eurodollar interbank rate)	**15,000**	
5¼% Senior Notes maturing 1977-86	**25,000**	25,000
5½% Subordinated Notes maturing 1972-80	**9,000**	10,000
7⅞% Subordinated Notes maturing 1973-88	**5,250**	5,250
Subordinated Loan maturing 1975 (bearing interest at 1¼% above Eurodollar interbank rate)	**5,000**	5,000
	$123,250	$86,890
Senior	**$ 96,000**	$58,800
Subordinated	**27,250**	28,090
Total long-term debt	**$123,250**	$86,890

(b) Instalments due and maturities during the next five years are as follows:

1972 — $2,000,000; 1973 — $2,575,000;
1974 — $11,575,000; 1975 — $31,175,000;
1976 — $13,175,000.

(c) In connection with the agreements relating to the long and short-term debt, $14,936,000 of the companies' retained earnings are restricted as to dividends.

(d) In December, 1971 a 5-year subordinated loan to Massey-Ferguson Credit Corporation for the equivalent of $5,200,000 was placed through a European bank acting for a number of investors located outside of North America.

financial review

BASIS OF CONSOLIDATION

The Consolidated Statement of Income includes the world-wide results of the operations of the company and all its subsidiaries. Associate companies (companies in which Massey-Ferguson has a minority interest) and the wholly owned finance companies in North America and the United Kingdom have been shown as investments on the Consolidated Balance Sheet. The investment in associate companies is carried at cost. The assets and liabilities of the finance companies have not been consolidated because of the significantly different nature of their operations. The combined statements of the finance companies and their subsidiaries are shown on pages 25 and 26 of this report. The investment in the finance companies is carried at the equity value of their net assets; the net income of the finance companies has been shown on the Consolidated Statement of Income as a one-line item.

OTHER INCOME

Other income totals $15.7 million, an increase of $2.1 million over 1970. The most significant item in this grouping is Interest and Sundry Income where finance fees earned on open dealer accounts total $10.1 million, an increase of $0.5 million. This increase is offset in part by a decline in income from Associate Companies. Profit on Disposal of Capital Assets increased by $1.8 million. This is largely the profit on disposal of the investment in SOMA, an Associate Company, and sale of a branch warehouse in Toronto.

COSTS

Steps taken towards the end of 1970 and in 1971 to reduce costs are now showing results. The Cost of Goods Sold for 1971 is 79.1% of sales compared with 80.2% last year. Marketing, General and Administrative Expenses have been reduced by $0.8 million in absolute terms more than offsetting the heavy impact of inflation, and resulting in a reduction from 15.4% of sales to 13.9% of sales. Engineering Expenses were down in total by $1.6 million. However, due to reallocation and rationalization of world-wide engineering efforts, these savings were achieved while increasing expenditures on future product development. It is expected that the controls instituted in 1971 will continue to yield favourable results during 1972. Interest rates remained at high levels throughout the company's operations and total interest expense was 4.9% of sales compared with 5.3% in 1970.

EXCHANGE ADJUSTMENT

Financial statements of companies outside the United States are prepared in local currency and have been translated into U.S. dollars following generally accepted accounting principles of exchange translation. Exchange rates as at October 31 were used to translate working capital and long-term debt. Rates prevailing at time of acquisition were used to translate investments, fixed assets, and depreciation provisions. Income and expense items (other than depreciation provisions) were translated at the year's average exchange rates.

The new economic policies announced by the United States on August 15, 1971 were the major factors affecting exchange for the year. For the most part, the currencies of our overseas units increased in value relative to the U.S. dollar, resulting in an exchange gain on translation. Had the new parities announced on December 20, 1971 been in effect at October 31, 1971, they would have resulted in a modest favourable impact, and this will appear in 1972's results. The Argentine peso and Chilean escudo were devalued substantially in 1971. The Brazilian cruzeiro, following government policy, experienced frequent but relatively small devaluations throughout the year.

INCOME TAXES

As set out in Note 5 to the Consolidated Financial Statements, income taxes are provided for on the tax allocation principle.

The increase of Income Taxes in 1971 to $5.7 million results from the increased level of profitability of some subsidiaries. A number of subsidiary companies had not yet returned to profitable operations in 1971 and following accounting conventions, no tax credit was taken in these cases, except (as explained in Note 5) to the extent of unclaimed capital cost allowances (where there are no timing limitations for a claim against future income).

The Tax Credits for 1971 at $1.9 million, up from $0.7 million in 1970, resulted primarily from the utilization of a loss carry forward by subsidiaries in the United States. A number of companies still have losses available to be carried forward, for which potential tax recoveries have not been recognized in the financial statements. At current tax rates, the tax recoveries from the utilization of these losses would amount to approximately $20.0 million.

FINANCE COMPANIES

The combined statements include the results of finance companies located in Canada, the United States and the United Kingdom. The combined profit of the finance companies at $4.7 million includes the first full year's results of Massey-Ferguson Export Finance Company Limited which was incorporated in the United Kingdom late in fiscal 1970. The combined profit is reflected in the change in carrying value shown on the manufacturing companies' balance sheet. Revenue of the finance com-

panies increased by 19.5% over 1970, while expenses increased by 14.8%.

Senior long-term debt increased by $37.2 million and subordinated long-term debt decreased by a net of $0.8 million. During 1971 $25.0 million of senior debt maturing 1974-76 and $15.0 million of senior debt maturing 1975 was issued by Massey-Ferguson Credit Corporation in the United States and their $3.0 million 5% senior note matured.

Since the end of the fiscal year, a further long-term subordinated loan equivalent to $5.2 million has been arranged by the United States Finance Company. Long-term debt totalling $2.0 million matures in 1972.

Receivables decreased by $2.9 million to $301.3 million, reflecting the higher availability of cash in the rural areas of North America. As a result of increasing long-term debt, reducing receivables and retaining net income from operations, it was possible to reduce short-term borrowing by $49.9 million.

WORKING CAPITAL

The working capital increased in 1971 by $43.9 million to $335.2 million. The current ratio improved to 1.8 to 1 compared with 1.7 to 1 in 1970.

This increase of $43.9 million as compared to a deterioration of $39.1 million in 1970 resulted in a total improvement between the two years of $83.0 million. The main sources were profit improvement of $28.9 million, dividend omission of $17.3 million, reduction of fixed asset expenditures of $15.9 million, reduction in investments of $8.2 million, and additional long-term debt of $5.5 million.

Within the working capital itself, the continued close control of inventory resulted in a decrease of $27.0 million while receivables increased by $30.0 million reflecting the financing of heavy sales in the 4th quarter. Borrowings declined by $16.2 million which is largely the result of a reclassification of $20.0 million which had been shown as short-term debt in 1970 and is now included with long-term debt. Accounts payable, accrued expenses, dividends payable and advance payments, were reduced by $26.6 million.

PREPAID EXPENSES

Prepaid Expenses and Other Current Assets declined by $4.2 million to $30.0 million. The decline is largely the result of lower prepaid taxes in France and North America. Such prepaid taxes make up approximately half of the account. Factory supplies which will eventually be consumed as part of the production process had previously been shown as raw material inventory, but on re-examination of this account, it was considered more appropriate to show these amounts as prepaid expenses, and the 1970 accounts have been adjusted by transferring $4.5 million from inventory to prepaid expenses. The corresponding figure for 1971 is $5.3 million.

INVESTMENTS IN ASSOCIATE COMPANIES

During the final quarter, our investment in the SOMA group of companies in France was sold, accounting for a large portion of the net $4.9 million reduction in the account. Ten Associate Companies remain, but only in five of these does the investment exceed $1 million. Of these five, the ownership varies from 27% to 49%. These investments consist of shares carried at original cost. Of the entire investment in Associate Companies, 60% is represented by an investment in Motor Iberica S.A. in Spain. The carrying-value of this investment continues to

GEOGRAPHICAL DISTRIBUTION OF ASSETS EMPLOYED

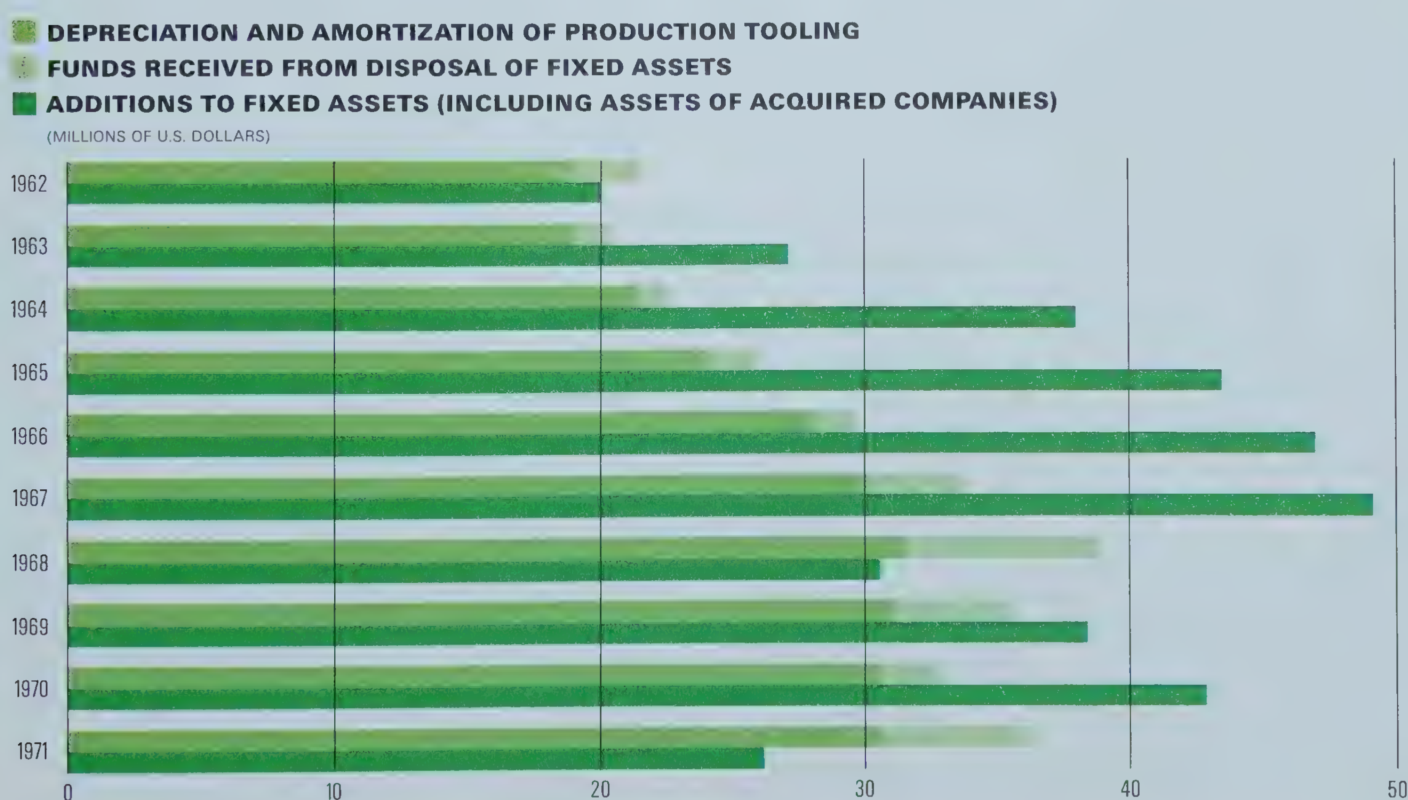
(MILLIONS OF U.S. DOLLARS)

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
NORTH AMERICA	**$ 487.1**	471.3	474.9	426.6	427.5	355.9	297.0	260.2	237.7	216.9
EUROPE	**$ 382.1**	405.1	403.3	342.7	326.8	320.9	300.6	239.3	216.1	219.8
LATIN AMERICA	**$ 64.4**	60.5	61.3	43.5	45.4	43.1	29.1	26.2	23.1	17.2
AUSTRALIA	**$ 46.1**	45.5	47.9	39.9	40.9	41.6	39.9	35.7	28.7	27.8
AFRICA	**$ 29.0**	27.0	24.4	19.6	21.2	23.3	25.2	19.2	19.5	19.0
ASIA	**$ 2.3**	2.3	2.1	2.1	2.0	2.0	2.0	2.1	1.0	1.0
TOTAL	**$1,011.0**	1,011.7	1,013.9	874.4	863.8	786.8	693.8	582.7	526.1	501.7

increase as a result of reinvesting dividends and fees.
Our investment in Implementos Agricolas Mexicanos was sold during the year to our Mexican associate company and will no longer form part of the world-wide consolidation.
Sales by Associate Companies amounted to $176 million for the year. This significant drop from last year is largely attributed to elimination of the SOMA group sales as a result of disposing of the company's interest in this group and a decline in the sales of Motor Iberica. The consolidated statements do not include the sales of Associate Companies or Massey-Ferguson's share of the related income.
Dividends and royalties from Associate Companies are included in Interest and Sundry Income. There was a slight decline in this income during 1971 as the result of lower activity in the Spanish operations and unfavourable exchange on some remittances.

CAPITAL EXPENDITURES

As a result of continuing efforts to limit capital expenditures to only the most essential projects, 1971 outlays of $27.0 million were the lowest since 1963. They were significantly less than the $35.0 million planned for the year and below the year's depreciation and amortization provisions of $30.5 million.
Expenditure in the United Kingdom accounted for 44% of the total. In Coventry, facilities were modified to accommodate major improvements in the tractor models and the creation of a broader line. In Knowsley, the expansion of the industrial and construction machinery facilities continued. In Manchester, the new 4-wheel-drive tractor was introduced, along with improvements to the parts warehouse facility. Facilities in Peterborough continued to be expanded and modified to produce the growing range of 4, 6 and 8-cylinder engines.
In North America, expenditures were primarily for new product introductions, which included North America's largest self-propelled combine, a baler, riding mowers and implements. In addition, rationalization of facilities was carried out to provide additional capacity for garden tractor and snowmobile production, manufacturing of some implements was relocated, pollution control equipment was installed at the Brantford foundry, and additional land was purchased adjacent to the combine plant in Brantford.
In France, in addition to essential equipment replacement at the factories at Marquette and Beauvais, extensive modifications were carried out at Beauvais to take care of tractor design changes, and facilities were rearranged at Marquette to handle production of combines transferred from Germany. This consolidation provided



the necessary basic facilities in Germany to manufacture hydraulic cylinders for the company's products.

In South America, facilities were provided to manufacture Massey-Ferguson tractors in Argentina. In Brazil, facilities were expanded to meet substantially larger demands and to increase the domestic content. The Perkins engine plant in Brazil was modernized to meet increased demands and the introduction of new engine models.

The 1972 outlook is that capital expenditures will be about $38.0 million. New product introductions and some major changes to existing products will account for a considerable portion of these expenditures. The balance will be spent on further capacity increases in Brazil, expansion of Perkins facilities in the United Kingdom, hydraulic cylinder manufacture in Germany, cost improvement projects, pollution control, and normal essential equipment replacements.

PROVISION FOR DEPRECIATION OF FIXED ASSETS AND AMORTIZATION OF PRODUCTION TOOLING

Depreciation of facilities is provided at rates that have been designed to write off these assets over a con-

STATISTICAL SUMMARY *(All Dollars in Millions U.S. Except Per Share Statistics)*

	BUSINESS ACTIVITY				OPERATING SUMMARY				
					Manufacturing Companies				
							Before Income Taxes and Exchange		
Year	Number of Employees at Year End	Total Assets	Net Sales	Asset Turnover	Gross Profit	Gross Margin	Profit (Loss)	Margin	Income Taxes
1962	40,121	$ 501.7	$551.4	109.9%	$118.2	21.4%	$25.9	4.7%	$(12.4)
1963	41,700	526.1	634.3	120.6	143.1	22.6	36.4	5.7	(15.4)
1964	44,072	582.7	714.1	122.6	168.4	23.6	55.4	7.8	(13.3)
1965	46,324	693.8	747.9	107.8	164.5	22.0	38.9	5.2	(4.9)
1966	45,907	786.8	862.2	109.6	194.2	22.5	53.1	6.2	(14.2)
1967	44,204	863.8	844.8	97.8	183.1	21.7	32.6	3.9	(9.9)
1968	46,049	874.4	848.0	97.0	195.7	23.1	37.1	4.4	(12.2)
1969	50,429	1,013.9	969.4	95.6	219.8	22.7	39.6	4.1	(12.1)
1970	47,386	1,011.7	937.9	92.7	186.1	19.8	(21.0)	(2.2)	(1.3)
1971	**43,349**	**1,011.0**	**1,029.3**	**101.8**	**214.7**	**20.9**	**9.6**	**0.9**	**(5.7)**

	LIQUIDITY		CHANGES IN FIXED ASSETS				SOURCE OF ASSETS		
							Liabilities		
Year	Net Current Assets	Current Ratio	Depreciation of Buildings and Equipment	Amortization of Tooling	Total Depreciation and Amortization	Additions	Current	Other	Share holder Equit
1962	$175.5	1.9	$14.2	$4.5	$18.7	$20.0	38.2%	20.0%	41.8%
1963	231.6	2.6	14.3	4.5	18.8	27.1	28.8	26.0	45.2
1964	245.2	2.4	15.7	5.6	21.3	38.0	29.6	23.7	46.7
1965	254.2	2.0	17.1	6.9	24.0	43.5	36.7	19.7	43.6
1966	337.6	2.4	18.9	9.1	28.0	47.0	30.8	18.5	50.7
1967	327.2	2.1	21.3	8.8	30.1	49.2	34.0	18.8	47.2
1968	331.5	2.1	23.5	8.0	31.5	30.6	34.5	17.8	47.7
1969	330.4	1.8	23.7	7.4	31.1	38.4	42.2	15.2	42.6
1970	291.3	1.7	23.1	7.4	30.5	42.9	43.7	17.3	39.0
1971	**335.2**	**1.8**	**22.8**	**7.7**	**30.5**	**27.0**	**39.8**	**20.3**	**39.9**

(The above figures for 1962 to 1968 were originally reported in Canadian dollars and have been converted to U.S. dollars for comparative purposes. These figures and the trends indicated are considered to be accurate but the translation has not been subjected to external audit.)

servatively estimated useful life. Production tooling for a new product or a major product change is generally amortized over a three-year period commencing with the first year of full utilization of the tooling concerned; tooling for replacements and for minor product changes is charged against income at the time of purchase. In countries where declining balance depreciation is claimed on income tax returns, the books are maintained on a straight line method of depreciation, unless prevented by government regulations.
Depreciation and amortization in 1971 amounted to $30.5 million, the same as in 1970.

OTHER ASSETS AND DEFERRED CHARGES
This account increased by $2.3 million to $21.8 million largely as the result of tax recovery debits in North America, as explained in Note 5 to the financial statements, plus equipment temporarily recorded here pending installation in a new company. In addition this account includes compulsory deposits, start-up expenses, unamortized discount related to debt issues and goodwill on acquisition of subsidiaries. Where appropriate, these balances are being written off to expense over periods of four to ten years.

	Net Income (Loss)			SHAREHOLDERS' EQUITY		INCOME DISTRIBUTION				
Exchange	Manufacturing Companies	Finance Companies	Total	Total	Return on Equity	Dividends on Preferred Shares	Net Income (Loss) for Common Shares	Dividends on Common Shares	Income Retained	Year
$2.2	$15.7	$1.0	$16.7	$209.7	8.0%	$1.3	$15.4	$ 4.5	$10.9	1962
(0.2)	20.8	1.1	21.9	237.8	9.2	1.3	20.6	6.1	14.5	1963
(1.8)	40.3	1.3	41.6	272.1	15.3	0.6	41.0	7.5	33.5	1964
0.8	34.8	2.1	36.9	302.5	12.2		36.9	12.5	24.4	1965
(0.2)	38.7	2.4	41.1	398.9	10.3		41.1	16.1	25.0	1966
	22.7	2.8	25.5	407.7	6.3		25.5	16.7	8.8	1967
(1.3)	23.6	2.7	26.3	417.3	6.3		26.3	16.7	9.6	1968
0.2	27.7	2.5	30.2	431.5	7.0		30.2	16.9	13.3	1969
(0.9)	(23.2)	3.5	(19.7)	394.5	(5.0)		(19.7)	17.3	(37.0)	1970
0.6	**4.5**	**4.8**	**9.3**	**403.7**	**2.3**		**9.3**		**9.3**	**1971**

SHAREHOLDERS	Shares Outstanding		PER COMMON SHARE					
Shareholders	Preferred	Common	Sales	Net Income (Loss)	Dividends	Income Retained	Equity	Year
40,359	254,834	12,268,599	$44.94	$1.26	$0.37	$0.89	$15.17	1962
40,363	254,748	13,495,948	47.00	1.53	0.45	1.08	15.90	1963
33,799		14,820,038	48.18	2.77	0.51	2.26	18.36	1964
34,884		15,059,025	49.66	2.45	0.83	1.62	20.09	1965
40,186		18,129,314	47.56	2.27	0.89	1.38	22.00	1966
42,304		18,130,670	46.60	1.41	0.92	0.49	22.49	1967
43,527		18,130,670	46.77	1.45	0.92	0.53	23.02	1968
39,694		18,195,450	53.28	1.66	0.93	0.73	23.72	1969
45,744		18,195,450	51.55	(1.08)	0.95	(2.03)	21.68	1970
41,575		**18,195,450**	**56.57**	**0.51**		**0.51**	**22.19**	**1971**

LONG-TERM DEBT

During the year, the $2.5 million 9½% mortgage debenture due to mature in 1985 was repaid in Australia at no penalty to the company. In France, Massey-Ferguson S.A. obtained from a Belgian bank a $3 million loan maturing in 1973-75. In addition, Massey-Ferguson S.A. took over the 8¼% stand-by loan previously borrowed by Moteurs Perkins S.A.; this, together with a similar loan previously borrowed by Massey-Ferguson S.A., has become a permanent long-term debt totalling $6.7 million maturing in 1978-80. The 7½% European general bank loan was allocated on a permanent basis in equal amounts of $6 million each to Massey-Ferguson Nederland N.V. and Massey-Ferguson GmbH, both loans to mature in 1978-80.

In Italy, Massey-Ferguson ICM S.p.A. obtained additional 3% and 4% government-supported mortgage loans maturing in 1973-81 in an amount of $4.6 million. In the United Kingdom, to consolidate certain bank loans, Massey-Ferguson Holdings Limited negotiated an additional 2 to 7 year $6.4 million loan at a floating rate 2½% above the Bank of England rediscount rate.

Of a $30.0 million general bank stand-by loan, $20.0 million was drawn upon at October 31, 1971. As explained under Note 4(c) to the financial statements, this loan is now shown as long-term debt. Including the latter loan, and fluctuations in exchange, long-term debt was increased $51.0 million whereas $24.0 million was repaid. A further $8.3 million falls due during 1972.

MINORITY INTEREST

The minority shareholders have a $15.9 million interest in seven subsidiaries with their share varying from less than 1% to almost 50%. Only three subsidiaries have a significant minority interest in terms of dollar value: Massey-Ferguson Holdings (Australia) Limited, Motores Perkins S.A. (Brazil), and Massey-Ferguson (South Africa) Limited, accounting for $15.8 million of the total. The minority capital increased by $0.3 million to $9.5 million.

In the case of the minority preferred shareholding in Australia, there is no further participation in profits once the preferred dividend is paid. The increase in the total of the account arises from the share of the minority interests in the 1971 profits in Motores Perkins S.A. (Brazil) and Massey-Ferguson (South Africa) Limited. Both of these companies had very satisfactory results in 1971 with a significant increase in profits over 1970.

In 1971, Massey-Ferguson do Brasil produced its first combines and introduced a new tractor, the MF 95, for the buoyant Brazilian agricultural market. The new, more powerful tractor reflects the country's rapid change to large, high production farm units. These machines are operating in the state of Sao Paulo where climatic conditions are such that two crops can be grown on the same land each year. The tractor, plowing the stubble in preparation for planting soybeans, follows the MF 210 combine harvesting wheat.

Operator convenience, a powerful, smooth-running 6-cylinder engine and quick handling are features of the new MF 400 crawler dozer. An MF 400 loader is also available. Below, left — Two new balers introduced in 1971, the MF 124 Twine model and MF Wire model, are the largest capacity 14" x 18" balers available in North America. Below, right — The motor fishing vessel Whispering Hope, *which is powered by a Perkins V8.510 marine diesel engine, is typical of many such boats operating in Scottish coastal waters.*

A combine so big that it can harvest a 24-foot swath of wheat or eight 30-inch rows of corn in one pass was introduced in September, following five years of development and testing. The MF 760 is the largest combine produced in North America and dwarfs the MF 510, previously the largest in the line. The MF 760 is powered by a 140-horsepower turbocharged Perkins diesel. It can be equipped with Quick-Attach tables which permit a farmer to convert his machine from one harvesting operation to another in minutes.

In December, the United Kingdom company exhibited its first 4-wheel-drive, articulated tractor, the MF 1200. This 110-engine-horsepower, five-ton machine is similar in appearance to two more powerful models in North America, the MF 1500 and MF 1800.

A second sugar cane harvester, the MF 102, was brought into production recently at Bundaberg in Australia. This "farmer size" machine is somewhat smaller than the popular MF 201 which, in November won the Prince Philip prize for Australian industrial design.

Directors' affiliations

Albert A. Thornbrough
President and Chief Executive Officer
Director and Member Executive Committee—Canadian Imperial Bank of Commerce.
Director—Argus Corporation Limited.
Governor—University of Guelph.

E. P. Taylor
Chairman, Executive Committee
President—The New Providence Development Company Limited.
Director—Argus Corporation Limited, The Royal Bank of Canada, Bass Charington Ltd.
Chairman—The Royal Bank International Ltd., RoyWest Banking Corporation Ltd., Trust Corporation of the Bahamas Ltd.

The Marquess of Abergavenny
Director—Lloyds Bank Limited.
President—Royal Agricultural Society of England, 1967.
Deputy President—Royal Agricultural Society of England, 1972.
President—Royal Association of British Dairy Farmers, 1955 and 1963.
President—British Horse Society, 1971.

Henry Borden, Q.C.
Director—British Newfoundland Corporation Limited, Bell Canada, IBM Canada Ltd., Brascan Limited.
Past Chairman, Board of Governors—University of Toronto.
Hon. President—Royal Agricultural Winter Fair, Canada, 1971.

H. J. Carmichael
Director—Continental Can Co. of Canada Ltd., Argus Corporation Limited, Hayes Dana Ltd.

Lord Crathorne
Privy Councillor—United Kingdom.
Minister of Agriculture and Fisheries, 1951-54.
Past Vice President—Council of Europe.
President—NATO Parliamentarians Conference, 1963, Yorkshire Agricultural Society, 1967, Teeside Branch, Institute of Directors.
Honorary Member Royal Agricultural Society of England.

Hon. Leslie M. Frost, C.C., Q.C.
Vice President and Director—Victoria & Grey Trust Co.
Director—Lever Brothers Ltd., Corporate Investors Ltd., Corporate Investors Stock Fund Ltd.
Member of Privy Council.
Chancellor—Trent University.
Hon. Vice President—Champlain Society.
Premier of Ontario, 1949-61.

Charles L. Gundy
Chairman—Wood Gundy Limited.
Director—Simpsons Limited, Simpsons-Sears Limited, Abitibi Paper Co. Ltd., Domtar Limited, Canada Cement Lafarge Ltd., Canadian Niagara Power Co. Ltd., Canron Limited, Dominion Life Assurance Company, United Corporations Limited.
Chairman, Board of Trustees—Hospital for Sick Children, Toronto.
Member, Board of Trustees—Toronto School of Theology.

Gilbert W. Humphrey
Chairman—The Hanna Mining Company.
Chairman, Executive Committee—National Steel Corporation.
Director—General Electric Company, General Reinsurance Corporation, The National City Bank of Cleveland, Texaco Inc., Sun Life Assurance Company of Canada.

John D. Leitch
President—Upper Lakes Shipping Ltd.
Director—Dominion Foundries and Steel, Ltd., Canada Life Assurance Company, American Airlines Inc., Canadian Imperial Bank of Commerce.
Governor—York University.

A. Bruce Matthews
Chairman—Canada Permanent Mortgage Corporation; Canada Permanent Trust Company; The Excelsior Life Insurance Company.
Executive Vice President and Director—Argus Corporation Limited.

John A. McDougald
Chairman of the Board and President—Argus Corporation Limited.
Chairman of the Board and Chairman of the Executive Committee—Dominion Stores Limited.
Chairman of the Executive Committee and Vice President—Hollinger Mines Limited.
Director and Member of the Executive Committee—Canadian Imperial Bank of Commerce.

Maxwell C. G. Meighen
Chairman—Canadian General Investments Ltd.
Vice President—The Canada Trust Company.
Director—The Algoma Steel Corp., Ltd.
Vice President and Director—Argus Corporation Limited.

John E. Mitchell
Group Vice President Industrial and Construction Machinery—Massey-Ferguson Limited.
Director—Akron National Bank, Farm and Industrial Equipment Institute, National Association of Manufacturers.
Trustee—Akron General Hospital.
Member—Greater Des Moines Committee.

M. I. Prichard
Group Vice President Engines—Massey-Ferguson Limited.
President—MIRA (Motor Industry Research Association United Kingdom).
Trustee—British Industry Roads Campaign.
Member of the Council—British Road Federation.
Member—British National Export Council.
Chairman—National Marketing Council, United Kingdom, 1964-1971.
Governor—Ashridge Management College, United Kingdom.

John G. Staiger
Senior Vice President—Massey-Ferguson Limited.
Vice President and Director—Farm and Industrial Equipment Institute.
Member, Board of Trustees—Canadian Opera Company, Simpson College, Iowa Methodist Hospital, Equitable Life Insurance Company of Iowa.

Thomas M. Ware
Former Chairman—International Minerals & Chemical Corporation.
Trustee—American Freedom From Hunger Foundation.
Advisory Board—Bankers Trust Company.

Colin W. Webster
Vice Chairman—Canadian Fuel Marketers Ltd.
Director—Sun Life Assurance Company of Canada, The Royal Bank of Canada, Dominion Textile Company Ltd.
Governor—McGill University.

sales statistics

(Millions of U.S. Dollars)

NET SALES BY TERRITORIES

	1971		1970	1969	1968	1967	1966	1965	1964	1963	1962
	% of Total	Amount $	$	$	$	$	$	$	$	$	$
NORTH AMERICA											
CANADA	*6.7*	**69.1**	65.2	79.9	66.8	84.4	89.1	82.5	75.6	70.8	58.1
UNITED STATES	*28.5*	**293.6**	247.8	285.9	256.6	263.1	268.5	208.4	174.2	154.0	134.2
TOTAL	*35.2*	**362.7**	313.0	365.8	323.4	347.5	357.6	290.9	249.8	224.8	192.3
EUROPE											
UNITED KINGDOM	*11.3*	**116.2**	114.3	106.1	95.5	95.1	95.6	83.8	88.2	84.9	72.8
FRANCE	*9.3*	**95.6**	88.5	110.7	93.1	89.0	95.3	85.9	85.3	74.2	66.3
WEST GERMANY	*5.5*	**56.4**	57.8	47.5	35.6	28.8	43.1	42.7	43.6	34.8	36.0
SCANDINAVIA	*4.0*	**41.3**	39.7	34.7	29.7	33.3	38.5	34.3	35.0	29.2	35.1
ITALY	*3.8*	**39.4**	41.8	37.3	30.9	28.6	25.4	22.4	19.1	18.1	13.4
AUSTRIA	*1.0*	**10.1**	8.2	6.0	5.5	6.2	7.0	5.4	4.3	4.5	5.6
BENELUX	*0.9*	**9.3**	11.6	8.4	7.6	6.7	10.3	8.2	7.4	5.4	6.9
SPAIN	*0.4*	**4.3**	8.1	9.0	4.1	5.3	4.4	3.3	3.7	4.7	5.7
SWITZERLAND	*0.4*	**3.8**	3.2	2.8	2.0	1.8	1.6	1.1	1.5	1.1	1.4
PORTUGAL	*0.3*	**3.1**	5.0	4.0	3.5	1.9	3.9	2.3	1.4	1.0	1.2
OTHER	*0.7*	**7.0**	5.8	4.7	5.0	5.0	4.1	5.1	6.2	3.7	3.8
TOTAL	*37.6*	**386.5**	384.0	371.2	312.5	301.7	329.2	294.5	295.7	261.6	248.2
LATIN AMERICA											
BRAZIL	*7.4*	**76.4**	58.8	43.0	38.0	20.5	24.4	19.4	28.7	19.0	9.9
MEXICO	*1.1*	**11.5**	11.7	11.8	10.3	11.8	9.6	7.5	6.2	4.6	3.9
ARGENTINA	*1.0*	**10.1**	9.6	3.8	2.2	2.9	1.6	2.1	2.7	1.5	1.3
OTHER	*2.1*	**21.8**	14.7	11.5	10.5	7.5	9.8	9.1	11.1	8.9	8.9
TOTAL	*11.6*	**119.8**	94.8	70.1	61.0	42.7	45.4	38.1	48.7	34.0	24.0
AFRICA											
REP. OF SOUTH AFRICA	*4.4*	**44.7**	38.0	38.9	35.2	33.9	26.1	28.8	30.0	26.3	20.4
GHANA	*0.4*	**4.3**	0.6	0.4	0.2					0.2	0.1
OTHER	*2.7*	**27.9**	30.1	28.7	22.8	20.1	16.9	15.2	11.4	13.3	8.4
TOTAL	*7.5*	**76.9**	68.7	68.0	58.2	54.0	43.0	44.0	41.4	39.8	28.9
AUSTRALASIA	*4.1*	**42.6**	43.9	55.3	59.8	57.8	53.4	51.2	53.4	43.9	35.9
ASIA											
TURKEY	*0.8*	**8.1**	3.9	10.0	12.2	13.6	10.2	6.8	5.8	9.6	3.1
JAPAN	*0.7*	**7.4**	5.4	4.3	3.3	3.2	2.5	1.6	1.6	1.6	1.1
INDIA	*0.6*	**6.4**	3.1	1.9	1.3	2.0	3.5	4.6	3.0	3.5	3.8
THAILAND	*0.3*	**3.0**	2.2	2.8	2.2					0.8	1.4
OTHER	*1.6*	**15.9**	18.9	20.0	14.1	22.3	17.4	16.2	14.7	14.7	12.7
TOTAL	*4.0*	**40.8**	33.5	39.0	33.1	41.1	33.6	29.2	25.1	30.2	22.1
TOTAL	*100.0*	**1,029.3**	937.9	969.4	848.0	844.8	862.2	747.9	714.1	634.3	551.4

NET SALES BY QUARTERS—ENDED

	1971 % of Total	1971 Amount $	1970	1969	1968	1967	1966	1965	1964	1963	1962
JANUARY 31	*19.2*	**197.6**	172.8	158.8	153.3	150.2	166.0	128.4	134.5	102.1	89.4
APRIL 30	*24.9*	**256.4**	249.7	248.2	224.3	248.4	244.0	178.6	201.9	175.2	154.6
JULY 31	*24.2*	**249.4**	235.9	265.7	207.4	218.8	222.0	216.8	206.6	167.0	142.6
OCTOBER 31	*31.7*	**325.9**	279.5	296.7	263.0	227.4	230.2	224.1	171.1	190.0	164.8
TOTAL	*100.0*	**1,029.3**	937.9	969.4	848.0	844.8	862.2	747.9	714.1	634.3	551.4

NET SALES BY PRODUCTS

	1971 % of Total	1971 Amount $	1970	1969	1968	1967	1966	1965	1964	1963	1962
FARM MACHINERY											
TRACTORS	*38.5*	**396.0**	331.0	339.6	317.8	335.6	359.8	294.0	293.5	275.8	243.5
GRAIN HARVESTING	*12.4*	**128.0**	99.4	148.5	135.6	140.6	145.7	131.5	118.7	89.7	77.5
HAY HARVESTING	*2.9*	**29.3**	26.1	30.1	26.2	27.2	32.1	32.4	32.0	31.5	27.6
OTHER PRODUCTS	*9.4*	**97.0**	99.6	94.6	83.2	87.0	80.1	71.9	60.0	53.2	46.0
TOTAL	*63.2*	**650.3**	556.1	612.8	562.8	590.4	617.7	529.8	504.2	450.2	394.6
ENGINES											
GROSS SALES	—	**194.2**	203.2	182.9	150.9	143.2	147.7	136.0	137.7	117.9	104.2
DEDUCT MF	—	**59.1**	57.8	55.8	48.2	49.3	56.2	48.2	50.8	42.7	38.7
DEDUCT PARTS	—	**28.1**	23.8	22.2	18.1	15.4	15.3	13.3	9.2	8.9	7.4
TOTAL (NET)	*10.4*	**107.0**	121.6	104.9	84.6	78.5	76.2	74.5	77.7	66.3	58.1
INDUSTRIAL AND CONSTRUCTION MACHINERY	*11.8*	**121.6**	128.1	128.0	88.6	73.3	69.3	54.4	49.0	41.3	33.2
PARTS	*14.6*	**150.4**	132.1	123.7	112.0	102.6	99.0	89.2	83.2	76.5	65.5
TOTAL	*100.0*	**1,029.3**	937.9	969.4	848.0	844.8	862.2	747.9	714.1	634.3	551.4

factories, products manufactured

FARM MACHINERY AND INDUSTRIAL AND CONSTRUCTION MACHINERY GROUPS

ARGENTINA
ROSARIO (215,000 sq. ft.) — Agricultural Tractors.

AUSTRALIA
BUNDABERG (68,000 sq. ft.) — Sugar Cane Harvesters; Cane Planters; Toolbar Cultivators; Weeder Rakes; Root Rakes; Cane Strippers; Rippers; Universal Rakes.
MELBOURNE (Sunshine) (1,544,000 sq. ft.) — Combines; Mowers; Drills; Hay Rakes; Foragers; Tillers; Cultivators; Harrows; Plows; Spinner Broadcasters; Post-hole Diggers; Jib Cranes; Toolbar Planters; Earth Scoops; Multipurpose Blades; Cordwood Saws; Scarifiers; Subsoilers; Transporters; Rotary Cutters; Loaders; Dozer Blades.

BRAZIL
PORTO ALEGRE (145,000 sq. ft.) — Combines; Plows; Disc Harrows; Planters; Rotary Cutters; Blade Terracers; Cultivators; Trailers; Seed Drills; Lime Spreaders; ICM Accessories.
SAO PAULO (176,000 sq. ft.)—Agricultural Wheel, Crawler and Industrial Tractors.

CANADA
BRANTFORD (North American Combine Plant) (807,000 sq. ft.) — Combines; Combine Cabs; Manure Spreaders.
BRANTFORD ("M" Foundry) (192,000 sq. ft.) — Castings.
BRANTFORD (Verity Plant) (523,000 sq. ft.) — Plows; Harrows; Subsoilers; Mowers; Side Delivery Rakes; Tillers; Cultivators; Wheeled Hitches; Hay Conditioners; Planters; Components.
MONTREAL (115,000 sq. ft.) — Wooden Office Furniture.
TORONTO (2,021,000 sq. ft.) — Balers; Swathers; Pick-ups; Grain Boxes; Grain Drills; Components.
WATERLOO (286,000 sq. ft.) — Full line of Steel Office Furniture; Steel Shelving and Lockers; Steel Garage Doors; Steel Stampings; Tractor and Combine Seats.

FRANCE
BEAUVAIS (663,000 sq. ft.) — Agricultural Tractors.
MARQUETTE (964,000 sq. ft.) — Combines; Balers; Mowers.

GERMANY
ESCHWEGE (587,000 sq. ft.) — Combines; Mounted Presses for Combines; Roller Chain; Gearboxes; Gears; Hydraulic Cylinders; other Components.

ITALY
APRILIA (600,000 sq. ft.) — Wheel Loaders; Crawler Tractors; Hydraulic Excavators.
COMO (115,000 sq. ft.) — Diesel Engines; Tractor Components.
FABBRICO (380,000 sq. ft.) — Agricultural Wheel and Crawler Tractors.

MALAWI
BLANTYRE (12,000 sq. ft.) — Hoes; Animal Draft Implements.

RHODESIA
BULAWAYO (56,000 sq. ft.) Animal Draft Implements; Hoes; Groundnut Shellers.

SOUTH AFRICA
VEREENIGING (440,000 sq. ft.)—Tractor Accessories; Plows; Harrows; Cultivators; Tillers; Maize, Cotton and Peanut Planters; Toolbars; Earth Scoops; Subsoilers; Multipurpose Blades; Combination Cutter Hammermills; Rotary Cutters; Hay Rakes; Graders; Grain and Fertilizer Boxes; Bulldozer Attachments; Buckets; Loaders; Animal Draft Implements.

UNITED KINGDOM
BAGINTON (359,000 sq. ft.)—Tractor components.
COVENTRY (1,541,000 sq. ft.) Agricultural and Industrial Tractors; Axles; Gearboxes; other Components.
KILMARNOCK (763,000 sq. ft.)—Combines; Mowers; Tractor Accessories.
KNOWSLEY—(250,000 sq. ft.)—Industrial and Construction Machinery.
MANCHESTER (511,000 sq. ft.)—Drills; Fertilizer Attachments; Tractor-loaders; Tractor-backhoe-loaders; Tractor Components.

UNITED STATES
AKRON (460,000 sq. ft.)—2- and 4-Wheel-Drive Loaders; Crawler Dozers and Loaders; Landscaping Equipment; Forestry Crawlers; Skidders.
DES MOINES (570,000 sq. ft.)—Corn Heads; Dump Carts; Riding Mowers; Lawn and Garden Tractors; Snowmobiles.
DETROIT (North American Tractor Plant) (550,000 sq. ft.)—Agricultural and Industrial Tractors; Forklift, Loader and Backhoe Assembly.
DETROIT (Transmission and Axle Plant) (314,000 sq. ft.)—Transmissions and Axles; Hydraulic Pumps, Power Steering Units; Components.
KAUKAUNA (82,000 sq. ft.)—Badger Barn Cleaners; Silo Unloaders; Forage Wagons; Manure Spreaders; Forage Blowers; Silage Distributors.
NEENAH (60,000 sq. ft.)—Tube and Bunk Auger Feeders; Chain Conveyors.

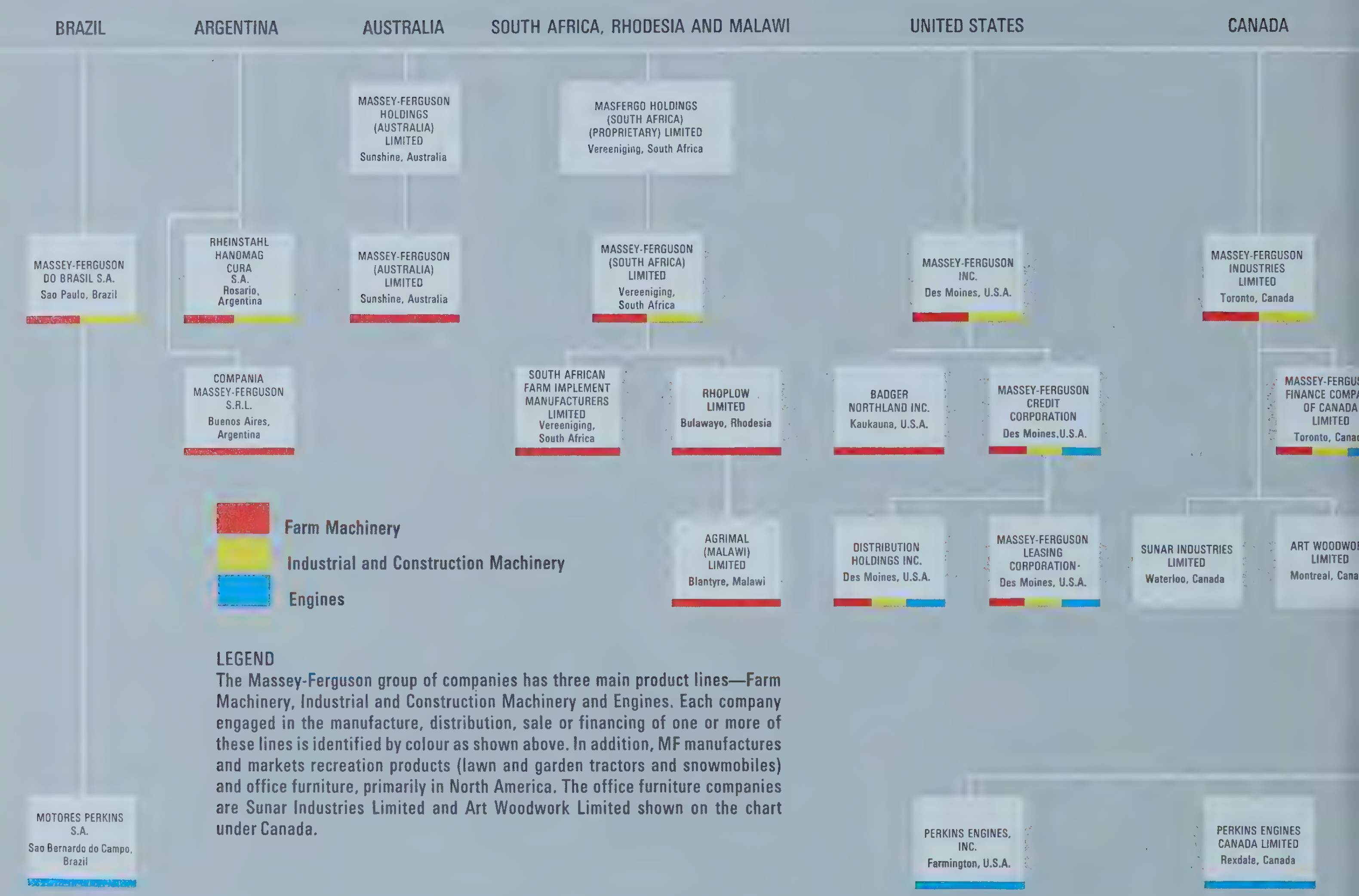
ENGINES GROUP

AUSTRALIA, Dandenong (16,000 sq. ft.) Assembly of Industrial Diesel Engines; Engine reconditioning.
BRAZIL, Sao Paulo (155,000 sq. ft.)—Diesel Engines.
FRANCE, Paris (153,00 sq. ft.)—Diesel Engines.
UNITED KINGDOM, Fletton (136,000 sq. ft.) Diesel Engines; Peterborough (Eastfield) (1,287,000 sq. ft.) Diesel and Gasoline Engines; Peterborough (Queen St.) (106,000 sq. ft.)—Engine reconditioning; Peterborough (Walton) (170,000 sq. ft.)—Gears and Engine Components.

ASSOCIATE COMPANIES

ARGENTINA: Perkins Argentina S.A.I.C., Cordoba (161,000 sq. ft.) —Diesel Engines.
GERMANY: Eicher GmbH, Forstern (237,000 sq. ft.)—Tractors and Implements.
INDIA: Tractors and Farm Equipment Limited, Madras (186,000 sq. ft.)—Tractors and Implements.
ITALY: Simmel S.p.A., Castelfranco Veneto (380,000 sq. ft.)—Components for Crawler Tractors.
MEXICO: Massey-Ferguson de Mexico S.A., Queretaro (145,000 sq. ft.)—Tractors; Naucalpan de Juarez (43,000 sq. ft.) —Tool Carriers and Attachments; Cultivators; Blades; Disc Plows; Harrows; Motores Perkins S.A., Toluca (78,000 sq. ft.)—Diesel Engines.
MOROCCO: COMAGI, Casablanca (10,000 sq. ft.)—Tractors.
SPAIN: Motor Iberica S.A., Avila (251,000 sq. ft.)—Vans; Barcelona (322,000 sq. ft.)—Tractors; Trucks: Barcelona (248,000 sq. ft.)—Sheet-metal Components; Madrid (110,000 sq. ft.) —Diesel Engines; Noain (129,000 sq. ft.)—Combines; Ejea de los Caballeros (89,000 sq. ft.)—Implements.

THE MASSEY-FERGUSON GROUP OF COMPANIES



LEGEND

The Massey-Ferguson group of companies has three main product lines—Farm Machinery, Industrial and Construction Machinery and Engines. Each company engaged in the manufacture, distribution, sale or financing of one or more of these lines is identified by colour as shown above. In addition, MF manufactures and markets recreation products (lawn and garden tractors and snowmobiles) and office furniture, primarily in North America. The office furniture companies are Sunar Industries Limited and Art Woodwork Limited shown on the chart under Canada.

ORGANIZATIONAL STRUCTURE

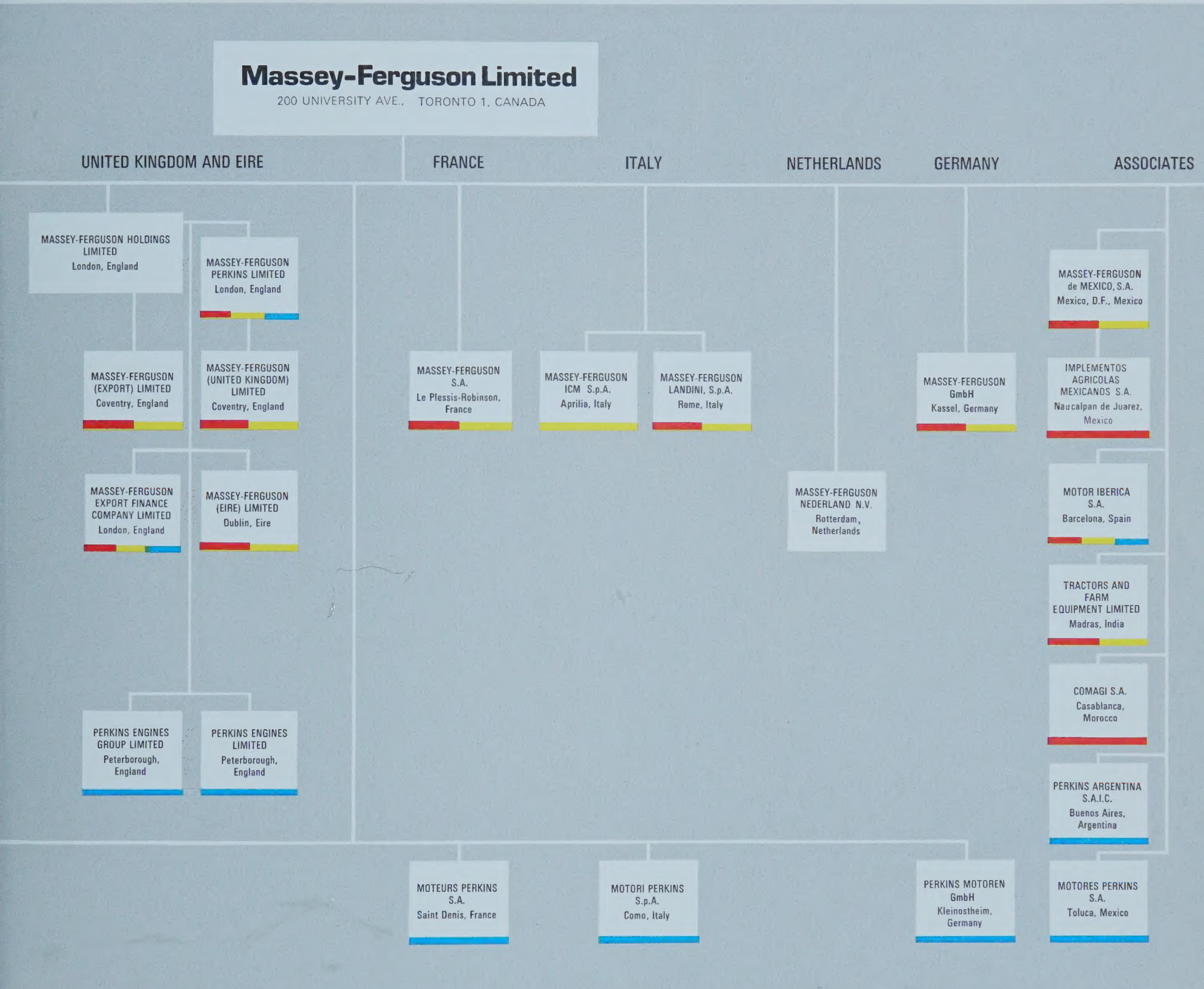
The above chart shows Massey-Ferguson's statutory organization. The companies shown are those established, registered and legally authorized in various countries to carry out the company's business.

Effective operation of most businesses, however, particularly one as complex as a multiproduct, multinational activity with a considerable degree of interdependence between the member companies, requires a complementary system of relationships, usually referred to as an organizational structure. This structure defines management's functional and operating responsibilities and the geographic areas within which these various responsibilities are delegated.

It also provides the official internal channels of communication, both vertical and horizontal, that are necessary to co-ordinate effectively all the widespread activities within the total organization. It is, generally speaking, on the basis of this structure that corporate management appraises the various markets, establishes fiscal objectives and assesses performance.

Management—Corporate and Operations: Operations Units Massey-Ferguson's Annual Report notes functional responsibilities under "Corporate Management" and operating and geographic responsibilities under "Operations Management".

Corporate Management includes the President and Chief Executive Officer,



executives with responsibilities world-wide for each of the three product groups (Farm Machinery, Industrial and Construction Machinery and Engines), and executives with world-wide functional responsibilities covering all product groups.

Operations Management consists of General Managers, each with responsibility for a specific geographic area. The majority of the General Managers are responsible for activities of both farm machinery and industrial and construction machinery within their assigned geographic area. The company refers to these activities as Operations Units. Directors of the Engines Group are responsible only for engines activities within their area.

Sales by Territories The Annual Report shows "Net Sales by Territories" in considerable detail over the past 10 years, with sub-groupings for North America, Europe, Latin America, Africa, Australasia and Asia. It should be noted that sales shown are those made within the particular territory and those of all product groups sold within the area, regardless of whether the products were manufactured in the particular country.

Sales by Products Sales by products (Farm Machinery, Industrial and Construction Machinery and Engines) are shown on a world-wide basis over a 10-year period. Because office furniture and recreation products activities are part of the Farm Machinery Group in our organization

LEGEND

- HEAD OFFICE
- OPERATIONS UNIT EXECUTIVE OFFICES
- FACTORIES
- SALES OFFICES
- EXPORT DISTRIBUTORS
- CENTRAL PARTS WAREHOUSES
- PRODUCT EDUCATION AND SERVICE CENTRES
- ASSOCIATE COMPANIES

structure, sales of these products are included in Farm Machinery sales figures on page 36.

It should also be noted that while the Perkins Engines Group supplies almost the entire requirements of Massey-Ferguson products for engines, the larger part of its production is sold to other companies in the farm machinery industry and in the automotive, marine and industrial business. The respective sales figures to the company and to other companies are shown under Engines.

Export Operations The company makes reference to "World Export Operations" in its reports and statements, and does so in a particular sense. Export is located in Coventry, England, and is responsible for sales of farm and of industrial and construction machinery to all areas of the world where the company has neither an Operations Unit nor an Associate Company. It sources its products from any facility as appropriate. With sales in 1971 at approximately $133 million, World

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Massey-Ferguson Limited

administrative, manufacturing and marketing facilities

Export Operations is a significant aspect of the company's activities, the major part being in developing countries, and therefore markets with growth potential. Sales of Perkins engines to export markets are carried out in similar manner by International Operations of the Engines Group.

Associate Companies The results of Associate Companies (in which Massey-Ferguson has 50 per cent or less ownership) are not included in consolidated results. The activities of these companies are, however, of considerable importance with total sales in 1971 of $176 million.

Special Operations Special Operations, a Corporate Management Division, is responsible for assembly operations carried out under special distributor or other local arrangements — as for example in Pakistan, Morocco, Thailand and Portugal. The initial activities leading to establishment of Operations Units in Brazil, South Africa, Argentina and Italy were undertaken by Special Operations.

Special Operations is also responsible for the negotiation of license/royalty arrangements for the manufacture of Massey-Ferguson products by companies in which Massey-Ferguson has no equity investment and for the provision of technical aid to such licensees.

In the case of Perkins Engines, the responsibilities relating to Associate companies and licensees are carried out by the Licensee operations.

FARM MACHINERY

INDUSTRIAL & CONSTRUCTION MACHINERY

ENGINES